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Turmoil Grips Mexico Over Shock Plan For Economy

Massive Bankruptcies And 500,000 Lost Jobs Seem to Be Inevitable

By Anthony DePalma

MEXICO CITY — People throughout Mexico reacted angrily over the weekend to a shock-treatment economic plan that is expected to cost 500,000 jobs and send thousands of companies into bankruptcy.

Mexican officials are bracing for several months of rising social tensions and fierce political struggles. They said half a million people were most likely to lose their jobs in the next two months, joining the 250,000 who became unemployed in January and February.

The plan, designed to calm foreign investors and ensure a \$50 billion international aid package, is expected to provoke a recession that will last all year. Interest rates of 90 percent and higher on mortgages, credit cards and car loans will push many families into insolvency.

Millions of Mexicans awoke Friday to find that gasoline prices had jumped a third overnight and that electricity costs were up 20 percent. The government also plans to increase its value-added tax, a type of national sales tax, by half.

The measures have already caused a wave of indignation throughout Mexico. "We need a capable government, not one that is always trying to hurt us," said Joaquin Abonice, 65, a locksmith who had just finished paying his monthly electric bill in Mexico City.

"They raise the price of electricity, of gas, of transportation, and then everything goes up," he said. "This country is rich, but it is governed by bad people."

Officials at the highest level in government said the hardship caused by the plan would add to existing turmoil caused by investigations that implicate the government in two sensational political scandals and the social conflicts in states like Chiapas, where an armed rebellion that started 15 months ago has yet to be quelled.

The same backlash could cost the governing Institutional Revolutionary Party four state governorships that are to be decided in elections this year. Last month, the party lost the governor's race in Jalisco State.

Without a doubt, the economic crisis is going to cause enormous social pressure," one senior government official said. The official said the public outcry would be great, and the demonstrations as well. But he said he did not think protests would necessarily be violent or would threaten the economic stabilization plan.

Opposition leaders — and even some ruling party members — in the Congress were also gearing up to fight the new economic strategy when its session reconvened this week, the Los Angeles Times reported. Specifically, they vowed to defeat the proposed 50 percent increase in sales taxes, which the government conceded will help push inflation to at least 42 percent this year when combined with a 35 percent increase in gasoline price and a 20 percent increase in electric bills.

The Associated Press quoted a report by the official Notimex news service that said union leaders would lodge a formal protest over the economic plan with lawmakers. Congress must still approve many of the plan's measures.

Compounding the government's prob-

See MEXICO, Page 6



Fidel Castro of Cuba arriving on Sunday at Queen Margrethe II's Christiansborg castle in Copenhagen. He heads to France on Monday. Page 5.

Gore Tells UN Poverty Talks of U.S. Shift on Aid

By Barbara Crossette

New York Times Service

COPENHAGEN — Vice President Al Gore, speaking Sunday on the last day of a United Nations conference on poverty attended by more than 120 world leaders, said that the Clinton administration planned to channel nearly half its foreign aid through private organizations, and foreign aid, are better able to identify needs and deliver help more effectively.

Mr. Gore acknowledged that this is a difficult time for social development spending at home and abroad, but tried

local communities in the developing world, Mr. Gore said.

Both steps, part of what the administration is calling its New Partnerships Initiative, respond to critics of foreign assistance, who say that millions of dollars are squandered by inefficient or corrupt governments. The policy also is in line with a growing perception that private aid groups, both American and foreign, are better able to identify needs and deliver help more effectively.

"I believe that at the end of the day, the United States will not step back," the vice president said. "The Clinton administration believes that in its commitment to remain engaged we have the support

to reassure his audience that Washington was not withdrawing from the world. In the debate on foreign policy, he said, what is being tested is "whether we will step back from the front ranks of nations that recognize a bond of shared responsibility toward men and women elsewhere in the world who are struggling to climb by their own efforts out of degradation and despair."

"I believe that at the end of the day, the United States will not step back," the vice president said. "The Clinton administration believes that in its commitment to remain engaged we have the support

of the vast majority of the American people in both our major political parties."

A few hours after Mr. Gore's speech, the UN development program stopped its "poverty clock," which calculated the number of children born into families around the world earning a dollar a day or less. The tally was 598,070 babies born since March 3, when delegates at a parallel forum for private groups began to gather in Copenhagen.

"We have turned off the display, but of course the clock ticks on," said James See POVERTY, Page 5

Clinton Choice for CIA Chief To Have Policy-Setting Role

By John F. Harris

Washington Post Service

WASHINGTON — President Bill Clinton has announced that John M. Deutch, his choice to take over the Central Intelligence Agency, will have cabinet rank and be granted a broad role in setting national security policy.

The upgrading of the CIA directorate, which officials said Mr. Deutch had sought before agreeing to take the job, is a significant organizational shift.

Only one previous CIA director — William J. Casey, who under President Ronald Reagan ran what congressional investigators later called a renegade foreign policy — has had cabinet rank. Traditionally, the CIA is a servant of the president and other policymakers in the government but is not itself a sponsor of policies.

Even as Mr. Clinton hailed the ascension of Mr. Deutch, the Pentagon's second-ranking official, as "a dynamic, brilliant leader with all the necessary skills for

this critical assignment," he bemoaned the fate of General Michael P. Cane, retired, of the U.S. Air Force, who withdrew his name Friday night.

In a statement, Mr. Clinton said allegations made against General Cane in the course of a background investigation "could be misconstrued" and exploited by opponents in a political climate that has become too corrosive.

The White House chief of staff, Leon E. Panetta, on Sunday criticized what he said was the "tabloid" atmosphere that punishes those seeking public office. Reuters reported from Washington.

"We are in a period where there is just a much higher level of scrutiny," Mr. Panetta said in a television interview. "Here's General Cane who has had a 30-year career, he's a war hero, flown 200 missions over Southeast Asia, gone through Department of Defense background checks, security clearances, unanimously acclaimed when we nominated him for this position.

See CIA, Page 6

G-7 Unlikely to Put Dollar Together Again

By Carl Gewirtz

International Herald Tribune

PARIS — The modern version of "all the king's men" — the deputy finance ministers of the Group of Seven industrialized countries — will meet here Monday, but the prospect of their doing anything to end the disorder on the foreign exchange market is as likely as putting Humpty Dumpty together again.

Leading academic experts insist that exchange-rate instability is endemic — the inevitable consequence of unrestrained capital flows that are able to exploit the international inconsistencies of national economic policies.

"There will be continued episodes of excessive volatility and persistent misalignment of exchange rates that we are witnessing at the moment," said Willem Buiter, professor at Cambridge University. "It's endemic."

So long as there are no restrictions on capital flows, "that's part of the price we pay for having uncoordinated global monetary policies."

Charles Wyplosz at Insead, the French

business school at Fontainebleau, agreed that there was little of significance that could emerge from the meeting on Monday as long as the two principal participants — the United States and Germany — remain steadfast in their insistence that interest rates are targeted to domestic objectives rather than to maintaining the external value of their currencies.

"The more the United States and Germany are asked to coordinate their policies, the less likely they will do it — just to preserve the appearance of complete independence," Mr. Wyplosz said.

In Mr. Buiter's view, "the logic of complete financial integration and unrestricted mobility of capital is a common world currency."

"Otherwise," he added, "we will continue to see the kind of destructive nonsense we see at the moment. National monies are a thing of the past. They are anachronistic."

Acknowledging that the creation of a world currency is not politically feasible, Mr. Buiter concluded that there was no escape from "the current regime of excess volatility and persistent misalignment" of exchange rates.

He and Mr. Wyplosz agree that the main problem now is the huge size of the amount of money available to be mobilized to move across borders and in the

See G-7, Page 5

In Life-or-Death Choice, Pregnant Cancer Sufferer Had Her Baby

By Anna Borgman

Washington Post Service

WASHINGTON — Clementina Geraci, three months pregnant, made the decision of her life when doctors told her last spring that her breast cancer had spread. She could fight the cancer aggressively and have an abortion, or she could take less hazardous cancer drugs and carry the baby to term.

Four months ago, she gave birth to Dylan Geraci Winn. And last week, Dylan, wearing a bright blue knit jumper, slept peacefully at his mother's funeral.

A black beret covering her balding head, Dr. Geraci spent the best of her final days at the hospital and her home, holding Dylan and making videotapes for him to watch as he grows up.

The steroids had distorted her face and body, but she wanted her son to know who she was and who she had been. On the tapes, Dr. Geraci told him about his Italian grandparents, about her favorite music, about her dreams for him. And she read bedtime stories, including Dr. Seuss's "Green Eggs and Ham."

Dr. Geraci, known to friends as Tina,

died last Monday at Washington Hospital Center, where she had worked as a resident in obstetrics and gynecology. She was 34.

"She didn't win, but she forced death to change its terms," said Pierre Toulle, Dylan's godfather. "She died with dignity."

More than 100 friends and family members gathered at a church service to remember her. They described a strong, vivacious, passionate woman who lived her life with integrity, loved music and cooked a mean marinara sauce.

"She was a stereotypical fiery Italian,"

Croatia Chief Drops Plan To Push Out UN Troops

Tudjman's Stance Seen As Preventing War, but He Asks 50% Force Cut

By William Drozdiak

Washington Post Service

COPENHAGEN — Croatia agreed Sunday to allow United Nations troops to remain on its territory after their mandate expires at the end of this month, a concession hailed by the United States and its allies as an important move toward preventing a wider Balkan war.

But the reshaped UN force probably will be less than half the size of the present 12,000-man unit.

The deal was announced by President Franjo Tudjman of Croatia and Vice President Al Gore, who held an hourlong meeting on the fringe of the United Nations World Summit Meeting for Social Development. It capped weeks of intensive diplomacy by U.S. and European officials to persuade Mr. Tudjman to reverse his demand that UN troops leave his country.

"This is very good news," Mr. Gore said at a press conference with the Croatian leader. "I consider this a major step away from war and toward peace."

Mr. Gore said the new accord was urgent because "we decided we must find a way to give diplomacy some breathing space." But he acknowledged problems on the road ahead, especially in persuading

In Sarajevo, a bullet hit a plane carrying the UN's top officials in Bosnia. Page 5.

the rebel Serbs to cooperate in the new mandate for the reduced UN force.

The vice president said the United States would seek a fresh UN mandate for the smaller force, with the dual task of patrolling the country's borders with Serbia and Bosnia while serving as a buffer between Croatian forces and those of rebel Serbs who occupy a large swath of land along its frontier.

Earlier this year, Mr. Tudjman declared that UN forces were no longer welcome in his country because their presence had consolidated the hold of rebel Serbs on about 30 percent of his country's territory. The 12,000 UN troops were dispatched to the area to separate Croatian soldiers from the rebel Serbs in early 1992 after six months of fighting.

The United States, Germany and France have pleaded with Mr. Tudjman to allow the troops to remain in place, warning that their departure could ignite a fresh round of warfare between Croatia and the Serbs and trigger an escalation in the fighting in neighboring Bosnia.

Croatia is desperately seeking greater economic and military aid to spur its development and integration with the West. In recent weeks, the U.S. and its allies delivered messages to Mr. Tudjman hinting that his government faced abandonment by the West if he fulfilled his threat to expel the UN troops.

Now that he has performed what Mr. Gore praised as "an act of great vision," Mr. Tudjman is expected to reap some rewards. Germany has promised to push through a trade and aid package for Croatia with its European Union partners, and Mr. Gore said Mr. Tudjman would be honored in Washington this week.

The Croatian leader, who may face difficulty at home explaining his turnaround to a politically popular stand to banish the UN troops, insisted that he had not backtracked but merely wanted to galvanize world attention and speed up the solution of the problem involving the occupied parts of Croatia.

The agreement to establish a new, smaller force of perhaps 5,000 UN soldiers under a new mandate to be approved by the Security Council, possibly by the end of the month, will enable Mr. Tudjman to save face by contending that old force and its mandate have indeed been removed.

Even if a new Security Council resolution is not ready by early April, the current force will be allowed to remain in position in order to avoid a vacuum before the replacement contingent is ready.

The UN troops have experienced grave problems carrying out their mission until now, even with 12,000 troops. Cutting the force to 5,000 soldiers, while expanding their duties to include border patrols with Serbia and Bosnia as well as the existing role of a buffer force, could make their new assignment virtually impossible to fulfill.

AGENDA



CHIRAC RIDES HIGHER — Jacques Chirac, the conservative candidate for the French presidency whose lead was bolstered by a weekend poll, visiting ski students on Sunday high in the French Alps at Anderle. Page 5.

Somalia Clan Leaders to Hold Talks

PAGE TWO

Canada's Seal-Hunting War

CAREERS

Getting Managers to Do Better

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though no one knew if the chemotherapy might make her sterile. After getting the all-clear, she did become pregnant.

Then Dr. Geraci started seeing spots and having blurry vision. The cancer had spread to a lung and an eye. By the time she gave birth, it had metastasized throughout her spine, liver and brain.

"We all understood" what her chemotherapy choice meant, said Oscar Mims, the obstetrician who delivered Dylan. "They were two people in love who made a conscious decision to have a baby. Who was I to say otherwise? They were both

See BABY, Page 6

'Huggers' vs. Hunters|Ottawa Tries to Revive Trade

Crisis Over Fish Stocks Recharges Canada's Seal-Hunting War

By Anne Swardson
Washington Post Service

IN THE GULF OF ST. LAWRENCE — The white baby seal lifts his head, looks around and yowls plaintively. Quickly, he gets what he is looking for. His dark-coated mother, poking her head from the water through a hole in the thick ice, gives him a reassuring nuzzle, just as members of his species have done through the ages.

This particular maternal gesture, however, is greeted by a chorus of oohs, aahs, coos and shutter-clicks from a group of orange-suited, wide-eyed city folk, brought here, near the Madeleine Islands in the central part of the Gulf of St. Lawrence, by a fleet of helicopters. It is not just seals who revel in the sweet joys of whelping season.

The days when Canadian pelt hunters bashed the skulls of baby harp seals such as these are gone, but the war over seal hunting rages on.

Each year at this time, the International Fund for Animal Welfare, which almost single-handedly shut down the seal hunt here more than a decade ago, flies dignitaries and journalists to the ice floes for a firsthand look at the baby seals saved from the hunter's club.

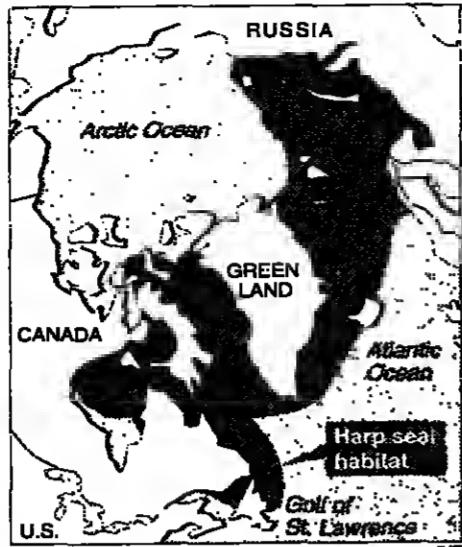
At the same time, the government of Canada and some very unhappy and unemployed seal hunters are searching for ways to revive the seal trade without alienating world opinion.

THEY see the need as particularly great this year because fish stocks have declined so drastically — in part, locals say, because seals are eating them — that former fishermen along the impoverished Atlantic Coast need another way to make a living.

This year, the Canadian government is offering a 15-cents-a-pound subsidy for seal meat in the hope of developing a market for it. In addition to a professional hunt, it will also allow amateurs to kill up to six adult seals each when the much-reduced annual hunt takes place later this month.

Officials of the International Fund for Animal Welfare say the move could lead to another round of confrontations between hunters and "seal huggers."

Thomas P. Moliterno, North American animal welfare coordinator for the International Fund for Animal Welfare, said the Canadian government admitted that it was "committed to expanding the seal hunt threefold."



He added, "This does not have the makings of a hunt seen favorably in world opinion."

The now-defunct hunt for the whitecoats, as harp seal cubs are known before they shed their baby fur during weaning, may have been the biggest international public-relations disaster that Canada has seen.

For hundreds of years, men had been killing seals in the Gulf of St. Lawrence and off the northeast coast of Newfoundland, the two spots in North America where harp seals give birth on the ice after migrating south from Arctic waters each year.

The pelt hunters used hooked clubs to kill the whitecoats so the seals did not get unnecessary holes in their hides.

BUT the clubs looked even more brutal than guns, and in the 1970s animal welfare groups, equipped with helicopters and cameras, began bringing in foreign politicians and journalists to record the annual spring hunt.

The televised images of baby seal corpses bleeding onto the white snow in front of their mothers strongly influenced Western opinion. In 1983, the European Community banned the import of pelts of pup seals; imports of seal products were prohibited by the United States in 1972.

In 1987, Canada banned the killing of whitecoats after a threat of further action by the

International Fund for Animal Welfare, including an international boycott of all Canadian fish products.

Since then, Canadian seal hunters have been able to find a market for only 50,000 or so adult seals each year, about one-fourth of the government quota they are allowed to kill.

Many hunters say they are hurting financially. Sharp declines in the number of cod have virtually ended commercial fishing off Newfoundland, Nova Scotia and other Atlantic provinces. The cod fishing grounds have been closed by the Canadian government in hopes that stock will recover.

Although the cod was mainly done in by overfishing, two components of seal diet are cod and the cod's favorite food fish, the capelin.

THERE is disagreement about how much cod is eaten by harp seals, but seal hunters and seal experts say harp seals are consuming at least some of the fish that the government does not allow fishermen to catch, slowing the cod's revival.

"We are to blame, too," said Christain Cyr, a seal hunter from the Madeleine Islands. "No one is clear on the fish. But seals harm the effort the government is making to build cod stocks up."

About 10 years ago, angry hunters on the Madeleines overturned and damaged a helicopter of the International Fund for Animal Welfare. Relations have not improved much since then.

Whether harp seal numbers have risen is disputed, but the government says they have.

Jean-Endre Hache, senior adviser for fisheries management for the federal Department of Fisheries and Oceans, said that from 1985 to 1990, the population of harp seals climbed from 2 million to 3.1 million. More recent figures will be issued this spring.

Canada hopes that its subsidy program will encourage the hunt and thus stimulate processing companies to find new uses for seal products.

To the International Fund for Animal Welfare, the strategy does not make sense. Why try to create a market just so more seals are killed, it argues.

"If you've got a subsidy, that's a sure sign there is no market," Mr. Moliterno said. He said the International Fund for Animal Welfare would respond to the subsidy program with a "high-profile, hard-hitting campaign."

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International Herald Tribune archive
Harp seals, once clubbed, are being blamed for low cod stocks.

EU Refuses Talks With Canadians Over Boat

Compiled by Our Staff From Despatches

BRUSSELS — The European Union will not negotiate with Canada to end a standoff over fishing rights unless Canadian authorities first release a Spanish trawler and its crew, European officials said Sunday.

But more than 10,000 Newfoundlanders, many of them thrown out of work by the disappearance of fish stocks gathered on Sunday to express support for Canada's seizure of the trawler, and Canadian officials said they would charge the skipper of the Estai with overfishing offenses.

The Europeans also were taking a hard line, and the Spanish fisheries minister, Luis Atienza, said in Madrid that there would be no discussions of fish quotas until the boat was freed.

The EU fisheries chief, Emma Bonino, said the Canadians must "immediately free" the Estai "before any contacts between the two parties."

The trawler arrived Sunday afternoon in St. John's, Newfoundland. Ambassadors to Canada from the EU, Spain, Germany and France were at the harbor to meet it.

The skipper faces a maximum penalty of \$750,000 Canadian dollars (\$35,000) and the loss of his catch of turbot, or Greenland halibut, which Canadian fisheries officials pledged to auction off to the highest bidder as soon as the boat arrived. The Estai's crew would be released and sent home, the officials said.

In a statement released Saturday night, Ms. Bonino repeated the EU's threat of sanctions against Canada in retaliation for what she called "an act of organized piracy."

The Union will examine its relations with Canada and study all appropriate measures, without exception," Ms. Bonino said in a statement released by the European Commission.

The Canadians seized the fishing boat Thursday after firing warning shots across its bow.

Ms. Bonino said the EU was opposed to overfishing and accepted an international limit of 27,000 tons on the overall catch of turbot in the area this year. What the EU disputed, she said, was its share of that total.

(AP, Reuters)

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The way the world's going

Bolshoi's Rebellious Dancers Go Back to Work

Reuters

MOSCOW — The matinee ballet performance at the Bolshoi Theater went ahead on Sunday, but dancers said a backstage rebellion over the theater's director, which caused Friday's performance to be canceled, was still simmering.

The dancers struck for the first time Friday after Yury Grigorovich, the Bolshoi Ballet's

artistic director and chief ballet master for 30 years, quit following a long dispute over the running of the theater with Vladimir Kokonin, the Bolshoi's general director.

"Nobody likes Kokonin," said one dancer, who spoke on condition of anonymity. Bolshoi artists have been forbidden to give interviews.

"But the public is paying a lot

of money to see us," she said after the performance of the children's ballet "Pinocchio."

The company appeared divided between those wanting to strike again and those who felt the show must go on.

There was talk among the dancers that performances would be halted until the end of March, one dancer said.

The dancers accuse Mr. Ko-

konin of being isolated from the company and of being incompetent. The introduction of short-term contracts has upset artists used to the Soviet-era job-for-life system.

On Saturday, Mr. Kokonin suspended 15 dancers who announced as the curtain was due to rise on Friday that they were refusing to go on stage.

Sinn Fein Chief, in U.S., Praises Clinton's Role

Reuters

NEW YORK — Gerry Adams, president of Sinn Fein, the political arm of the Irish Republican Army, has begun a 10-day visit to the United States by commanding President Bill Clinton's contribution to the peace process in Northern Ireland.

"His engagement in the peace process has been positive and at each intervention he has helped to move it along in a very positive way," Mr. Adams said of the president on arriving in New York on Saturday.

Mr. Clinton, ignoring opposition from the British, gave Mr. Adams permission last week to raise funds in the United States as long as the money was not used to buy arms for the IRA. Mr. Clinton also invited Mr. Adams to the White House on Friday, St. Patrick's Day.

Asked what assurances he would give that money raised

would not be used for arms for the IRA, Mr. Adams said: "It isn't an issue, because Sinn Fein isn't the IRA. Secondly, it is patently obvious to me the IRA does not need arms since they have ceased those activities, and thirdly, we have employed the accounting firm of Price Waterhouse to make sure of our accounting system."

Price Waterhouse later issued through its director of communications for Europe, Sue Hurley, a statement denying that it had been hired by Sinn Fein.

The IRA called off its hostilities last September. Protestant gunmen, fighting to preserve British rule, called a truce in October.

Mr. Adams said in New York that Mr. Clinton's involvement was more important than the money likely to be gained by his organization, saying the president's action was important "in practical terms in helping the peace process to evolve."

"There aren't millions of dollars here to be soaked up by Sinn Fein," he said.

He said the real peace talks had yet to start since the IRA ceased hostilities more than half a year ago.

"It's time to start talking about everything with everyone at the table and everything on the table so that we can have a lasting peace," he said.

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An Angry Tunnel Crowd Didn't Turn Up and Go

Reuters

FOLKESTONE, England — Angry would-be travelers demonstrated at the Channel Tunnel car terminal after being forced to wait hours for a special, nonreserved "turn-up-and-go" service.

Several thousand Britons, encouraged by spring weather, arrived in Folkestone on Saturday expecting to take a shuttle day trip to France through the new service, which began March 1.

Many had driven hundreds of miles but faced delays of up to two hours as passengers who had already booked tickets rolled onto trains ahead of them.

Eurotunnel offices were bombarded with complaints and some passengers blocked toll-booths.

"A lot of people seem to have decided to go to France for the day," a Eurotunnel spokeswoman said. "We are explaining the situation and are doing our best to cater to everybody."

underground cable network designed to pull the structure back toward center.

(AP)

EGYPT (AFP) — More than half of all flights by the French domestic carrier Air Inter were canceled Sunday afternoon when pilots began a 60-hour strike to protest job cuts, airline management said.

Air Inter said it had limited the damage by organizing 30 extra flights before the strike began at midday Sunday. The strike is to end at midnight Tuesday.

Hoping to salvage the leaning Tower of Pisa for 80 more years, engineers have begun work on an

underground cable network designed to pull the structure back toward center.

(AP)

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Cuba, Ghana, Lesotho, Zambia.
TUESDAY: Andorra.

WEDNESDAY: Belarus, Hungary, Liberia.

THURSDAY: Israel, Nepal, Sri Lanka.

FRIDAY: Canada, India, Ireland, Israel, Northern Ireland.

Sources: J.P. Morgan, Reuters.

Correction

In review of George Armani's Milan fashion show in the Saturday-Sunday editions, a quotation by Eric Clapton was mistakenly attributed to Elton John.

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THE AMERICAS

'Welcome,' Wallace Tells Rights Marchers in AlabamaBy Rick Bragg
New York Times Service

MONTGOMERY, Alabama — The marchers swarmed around the old man in the wheelchair, some to tell him he was forgiven, some to whisper that he could never be forgiven, not now, not a million years from now.

Yet to all of the people who retraced the steps of the Selma-to-Montgomery civil rights march 30 years ago, George C. Wallace offered an apology for a doomed ideal.

The former Alabama governor, whose name became shorthand for much of the worst of white Southern opposition to the civil rights movement, held hands with men and women he had once held down with the power of his office. To one aging civil rights war horse, he murmured, "I love you."

Three decades ago, he was preaching the evil of integration and found

approval, even adoration, in the eyes of many white Alabamians.

There was the legendary stand in the schoolhouse door, to keep blacks from registering at the University of Alabama. It was his state troopers who used riot sticks and tear gas to control and intimidate marchers on the way to Selma. Then, he took his message nationwide in a run for president in 1968 and again in 1972.

An assassin's bullet in 1972 crippled him, but his old words and views echo today on the lips of conservative politicians and others, even though the man people here just call "Th' Guv'n" has long since capitulated, apologized and begged for forgiveness.

Now 75, in a wheelchair for a third of his life, he was too old and sick to make a speech to the 200 marchers, mostly black, who gathered at the St. Jude School in Montgomery, as they did on this day three decades ago. Instead, an aide read his remarks as

Mr. Wallace, who is almost completely deaf, sat in silence.

"My friends," the aide read, "I have been watching your progress this week as you retrace your footsteps of 30 years ago and cannot help but reflect on those days that remain so vivid in my memory. Those were different days, and we all in our own ways were different people. We have learned hard and important lessons in the 30 years that have passed between us since the days surrounding your first walk along Highway 80."

A woman in a brown beret quietly said, "Amen."

"Those days were filled with passionate convictions and a magnified sense of purpose that imposed a feeling on us all that events of the day were bigger than any one individual," the speech continued. "Much has transpired since those days. A great deal has been lost and a great deal has been gained, and here we are. My message

to you today is welcome to Montgomery."

"May your message be heard. May our lessons never be forgotten. May our history be always remembered."

The marchers applauded. For 10 years now he has admitted the wrongness of his deeds 30 years ago. Still, to many of the people who suffered at the hands of the law enforcement officers he ultimately commanded, it was important that he said it on this symbolic

Highway 80.

But 30 yards away, Rufus Vanable, 58, sat under a pine tree and refused to listen.

"I ain't even interested in what he's saying," said Mr. Vanable, a retired construction worker who was part of the march that was bloodied on the Edmund Pettus Bridge in Selma. "If you lived through it, you wouldn't be either. If he thinks this will ease his mind in some way, let him do it. I'm not interested in looking at his face. It brings back too many memories."

"Seeing him say that he's sorry ain't gonna do me no good at all."

As the marchers sang "We Shall Overcome," Mr. Vanable sat under his tree and sang to himself.

Others were more forgiving.

"Thank you, for coming out of your sickness to meet us," said Joseph E. Lowery, the national president of the Southern Christian Leadership Conference and an organizer of that first march. "You are a different George Wallace today. We both serve a God who can make the desert bloom. We ask God's blessing on you."

"It's very important, in this day and time," said Gerri Perry, the principal at St. Jude's. "It is important for people to see him saying this."

"Back then 30 years ago, I didn't think I would ever see anything like this."

What she saw was an old man wanting to set things right, for whatever reasons.

POLITICAL NOTES

Congressmen Attack Own Pensions

WASHINGTON — One of the last great perks of Capitol Hill — congressional pensions that are more generous than retirements most Americans enjoy — have come under attack by members of the very group able to claim them as a plush cushion in old age.

Eight House Republicans and one Democrat lined up in a Rayburn Building hearing room to pummel their pension system, long derided on talk radio as a symbol that Washington politicians have it better than the common man.

Representative Howard Coble, Republican of North Carolina, called the retirement plan for members of Congress "inexcusably lavish," fueled by frequent cost-of-living increases to create a "pension millionaires club."

Representative Steve Stockman, Republican of Texas, included a chart in his testimony showing that 45 incumbents defeated in the last election are eligible to collect more than \$8 million during retirement.

He said that the former speaker of the House, Thomas Foley, Democrat of Washington, would receive an annual benefit of \$123,804, while another former House power, Jack Brooks Democrat of Texas — the incumbent that Mr. Stockman knocked off — would draw a \$96,462 annual pension.

(WP)

Tobacco Firms Smoke Out Benefit

WASHINGTON — One of the big beneficiaries of the legislation to limit civil damage awards, which passed the House on Friday, has not been heard from in the debate. But tobacco companies, which are facing an increasing number of well-financed and novel lawsuits, stand to gain in several respects should the bill become law.

Tobacco companies could particularly benefit from a crucial change in the bill: limits on punitive damage awards, which are used to punish companies for conduct that judges and juries deem outrageous.

The bill caps awards at \$250,000, or three times the amount awarded for economic losses, whichever is higher.

(WP)

Representative Issues an Apology

WASHINGTON — Representative Fortney (Pete) Stark, Democrat of California, has apologized to Representative Nancy Johnson, Republican of Connecticut, for calling her a "whore for the insurance industry" in a private conversation three weeks ago, a Stark aide said.

Mrs. Johnson's staff confirmed that an envelope from Mr. Stark, addressed to the congresswoman and marked "Personal and Confidential," arrived at her Capitol Hill office.

"He apologized. He sent a letter of apology over to her," the Stark aide said.

He declined to release the letter but said it made the "unequivocal apology" that 32 female members of the House had demanded.

It was the second time in a year that Mr. Stark had insulted Mrs. Johnson, with whom he serves on the Ways and Means Committee.

(WP)

Quote/ Unquote

Michael P.C. Carns, on his decision to withdraw his nomination to be director of Central Intelligence: "I see no reason to put my family through it, and I see no reason to put myself through it because it would embarrass me and the administration."

(NYT)

**NASA Opens Bids
In Quest to Build
A Reusable Rocket**By Warren E. Leary
New York Times Service

WASHINGTON — The space agency has begun a competition within the aerospace industry to design and build a new family of reusable rockets that would eventually replace the space shuttle and other satellite launchers.

Experts said the effort would be economically viable if NASA and other government users serve as "anchor tenants," providing a core of business as the industry develops a private base.

This concept represents a real transition to the next phase of space flight," said John Logsdon, director of George Washington University's Space Policy Institute in Washington.

"It's certainly the next step beyond the shuttle for routine and affordable access to space."

About half of NASA's \$13 billion budget goes for maintaining and operating its aging fleet of four space shuttles. While reusable, the shuttles are based upon early 1970s technology. On each flight, the shuttle's large external fuel tank is discarded and its twin rocket boosters must be recovered at sea for refurbishing, an expensive process.

The new program calls for developing a large, totally reusable rocket that takes off, goes into orbit and returns as a single unit. Such a rocket should be able to lift shuttle-size payloads and carry 25,000-pound (11,300 kilogram) cargoes to the planned international space station; probably officials say.

The program also calls for developing a smaller, mostly reusable rocket that could take small payloads, 1,000 to 2,000 pounds, into low Earth orbits.

Under the plan, the government would pay for research on new rocket technology and would finance the building of subscale, flying test rockets to see if the new systems work. Then it would be up to the aerospace industry to finance the construction, operation and marketing of the rockets.

Short Takes

U.S. Apples in Japan: The Shine Wears Off

Washington state apple growers say that sales in Japan, after getting off to a flying start when trade restrictions were eased, are now flagging. The growers are now working to keep the Japanese interested.

Shippers have sold nearly 480,000 20-kilo (42-pound) boxes of apples to Japan since the trade opened Jan. 9 in the flurry of excitement that greeted the end of Japan's 23-year ban on such imports.

But sales over the past month have trickled to 80,000 boxes, and shipments will fall short of the 700,000-box goal the industry hoped to meet by April 1.

For the 1995-96 season, the Washington Apple Commission has allocated \$100,000 for promotional activities to keep the Japanese interested.

Commission officials cited a number of possible reasons for the slowdown, including a competitive response from Japanese growers, who lowered prices for their apples when the imports arrived, eliminating some of the price advantage of U.S. apples. They also began selling lesser-quality Fuji apples in bags instead of diverting them to processors as they normally would have.

"We have our work cut out for us," a commission spokesman said. "The conventional wisdom among people not familiar with the market was that once it was open, the hard work was done."

"It may be worth a lot of money," he said, "but the potential market is very small and very sophisticated and very hard to reach. So it's a misguided effort to sell these kinds of things."

The two men in the car were jailed on charges of grand larceny.

International Herald Tribune



SECOND SEX — Haitian women are disproportionately affected by the country's devastating poverty, government statistics show. Women, like this vendor in Port-au-Prince, often earn below the minimum wage of a dollar a day.

**California Storms Kill 7
In a New Burst of Fury**By Warren E. Leary
New York Times Service

SAN FRANCISCO — Central Californians were reeling Sunday from storms that killed at least seven people, inundated several towns and drove on thousands from their homes.

Five other people were reported missing after at least three cars plunged into flood waters that swept away a bridge on a California freeway, officials said.

January's storms caused at least \$1.3 billion of damage and led President Bill Clinton to declare much of the state a major disaster area.

The National Weather Service warned there could be record flooding along the Salinas River in central California, affecting the towns of Salinas and Spreckels, about 90 miles (145 kilometers) south of San Francisco.

Other storm victims included two cross country skiers, found dead on Saturday on the eastern slopes of the Sierra Nevada mountains near the California-Nevada state line, officials said.

The two men, in their 30s, apparently were lost in a blizzard. They were found only 300 yards from a house.

A spokesman for the California Office of Emergency Services said

Away From Politics

• Two teenagers shot a 65-year-old New Jersey woman in the head as she was pulling her car into her driveway, left her on the ground and took off with the vehicle, the police in Montclair said. They were captured hours later. The woman, Sheila Gillespie, was in a coma.

• Fire swept through a bedroom at a homeless shelter in Philadelphia, killing four children. The fire broke out on the second floor of the Salvation Army's Red Shield Homeless Center for Families.

• A former researcher accused of shooting a professor in Illinois killed himself a day later on the campus where they had worked together. John Arthur Costalupes shot himself in the head after a

scuffle with policemen guarding the dean's office at the University of Minnesota medical school in Minneapolis. Campus security had been tightened after authorities learned that Mr. Costalupes, 45, was back in the area where he and Mario A. Ruggiero worked together nearly 10 years ago. Authorities believe that Mr. Costalupes shot Mr. Ruggiero on Thursday in a parking lot at Northwestern University. Mr. Costalupes, a research assistant under Mr. Ruggiero at Minnesota from 1985 to 1987, claimed that Mr. Ruggiero stole his work and got him fired, the police said. Mr. Ruggiero, 51, was in serious condition with bullet wounds.

(AP)

U.S. Cuts Off Remaining Military Aid to Guatemala

New York Times Service

WASHINGTON — The Clinton administration has announced that it is suspending the last of its small military aid to Guatemala. The decision came as an American woman planned a hunger strike in front of the White House to draw attention to the disappearance of her husband in Guatemala.

Administration officials acknowledged that they were suspending the \$200,000-a-year program partly in response to pressure from the woman, Jen-

nifer Harbury. She is seeking the administration's help in getting information about her husband, a Guatemalan guerrilla leader believed to have been captured in 1992.

The State Department said it was suspending the program to protest what it called human rights abuses and Guatemala's failure to turn over information about six killings and disappearances, including the case involving Ms. Harbury's husband.

The State Department said it

had five other cases also involving U.S. connections.

In 1990, the United States cut off most military assistance and human rights abuses to Guatemala because of concerns about widespread rights abuses.

Ms. Harbury said in an interview that she believed the military had held her husband in a secret prison and tortured him since his capture.

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Hanoi Is Reminded Of Broken Promises

Ex-Revolutionary Makes Plea For the Regime's Lost Ideals

The Associated Press

HO CHI MINH CITY — As Vietnam celebrates 20 years of reunification, a former revolutionary believes the government has broken its promise — and dares to say so.

Dr. Duong Quynh Hoa, a Paris-educated physician, spent seven years in the jungles treating Communist guerrillas during the war with the U.S.-backed government of South Vietnam. She was a party member and health minister in the guerrillas' provisional government.

But after the South fell in 1975 and Vietnam was reunified under the Communist government in Hanoi, she objected to the party's mass arrests of Southerners.

She dropped her membership and devoted herself to medicine, but remained a passionate observer of politics and society, speaking with a candor that is startling in a country that brooks no legal opposition.

"We are at the 20th anniversary of the revolution," Dr. Hoa said recently in her office at the Center for Pediatrics, Development and Health, which she founded after the war. "We must put the question: Were we faithful to our ideals? Are you sure that you are not corrupted? Are you sure that you're fighting for the better life of your people?"

"I think the government has lost a big part of the confidence of the people because they don't keep their promises," she added. "Have they given happiness to the people? I say, 'No.'

Others have been jailed for saying far less. But Dr. Hoa's revolutionary past gives her a special immunity.

Dr. Hoa has no interest in organizing an opposition movement and is not well-known outside Vietnam's small political and professional elite. She is not the one to change Vietnam's ways, nor does she expect to.

She is the Health Ministry meeting, and in interviews with foreign reporters, serving as a conscience of the revolution, or party spoiler, depending on one's view.

Many of her criticisms have been voiced by Communist

leaders. Soldiers who fought for the party have received little back, the push for development is exacting a social cost, drug use and prostitution are rising, and corruption is spreading.

In her opposition to rapid commercialization and her concern for the poor, she sounds like the party's conservative wing.

What is different is her prescription. The leaders call for tighter party control. Dr. Hoa urges democracy.

"For me socialism is social justice, is tolerance, is respect for human rights," she said.

"The most important thing is liberty of the press. If everyone can talk very frankly, very freely, you can have something more constructive for the country."

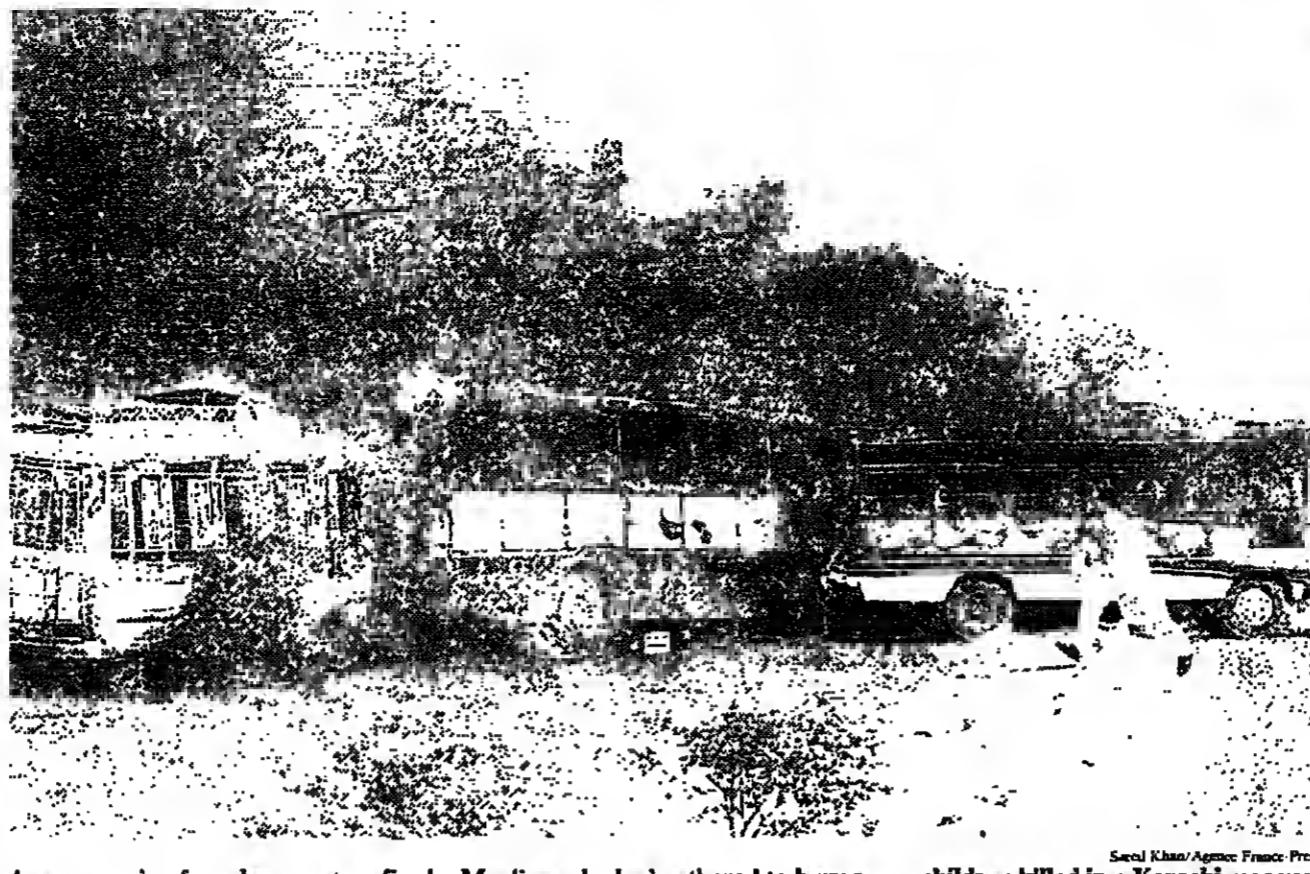
The party has set itself an impossible task in trying to convert the sluggish state-managed economy into a modern, free-market system without relaxing political controls. Dr. Hoa said.

In 1975, the party alienated many Southerners by seizing private shops and factories and trying to force farmers into communes. It has reversed course, but kept the old methods.

Noting the growing gap between rich and poor city and countryside, Dr. Hoa predicts political change will come whether the party wills it or not.

"The party is like the sorcerer's apprentice," she said. "It is unable to control the situation."

"Most of the people are not satisfied but dare not tell the truth," she added.



A man running from buses set on fire by Muslims who had gathered to bury seven children killed in a Karachi mosque.

6 Die in Pakistan During Security Sweep

Reuters

KARACHI, Pakistan — Six people were killed in unrest that erupted Sunday after the police detained at least 77 people believed responsible for the wave of violence here.

The security sweep followed a promise by Prime Minister Benazir Bhutto on Saturday to wage a merciless campaign against those behind the bloodletting in Karachi, where two U.S. Consulate officials were ambushed and killed on Wednesday.

"The administration has to be ruthless," she said.

The police said they had shot and killed three people and wounded six in western Karachi's Pak Colony in clashes with members of the Haqqi faction of the ethnic Muhammadi National Movement, or MQM.

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LY ASIA

Bullet Hits Plane With UN Envoy To Bosnia

Reuters

SARAJEVO, Bosnia-Herzegovina — A bullet hit a plane carrying the United Nations envoy, Yasushi Akashi, and his two top generals, piercing the fuselage and narrowly missing a passenger's head as the aircraft landed in Sarajevo on Sunday.

No one was wounded by the single small-arms round, but it was the most serious attack on senior UN peacekeeping officials in nearly three years of war in Bosnia.

Aboard the jet were Mr. Akashi and Lieutenant Generals Bernard Janvier and Rupert Smith, UN military commanders for all of former Yugoslavia and Bosnia, respectively.

The shooting occurred as the three officials arrived here on a mission to salvage Bosnia's fraying cease-fire in talks with the Muslim-led government and its Serbian foes.

UN sources present at the airport said that at least three shots were fired and seemed to have come from Bosnian Serb positions south and east of the runway.

The Serbians' Sarajevo-area army corps denied responsibility.

"An impartial analysis of the incident will show where the bullets came from," it said in a statement carried by the Bosnian Serbian news agency SRNA.

A UN spokesman described the shooting as "outrageous." Mr. Akashi vowed he would not be cowed by warring factions.

"I don't know who did it but nobody can intimidate me with this kind of thing," Mr. Akashi said. "I'm rather insensitive to these matters."

North Atlantic Treaty Organization planes thundered over the airport afterward in a display of strength, dropping flares to confuse any anti-aircraft missiles in the area, which straddles the front lines between government troops and the Serbs.

A bullet hole was clearly visible on the right side of the plane's fuselage just behind the rear window.

A passenger on the charter aircraft, who asked not to be named, said the bullet hit with an audible thud and came within a foot of the head of a French UN officer.

"Some people hit the floor of the aircraft when the round struck," the passenger said.

Mr. Akashi's visit was prompted by increasingly serious violations of a four-month truce and a freedom-of-movement agreement signed by the Bosnian government and the Serbs. The agreements expire on May 1.

Sniper fire has claimed a number of victims in Sarajevo over the past week, including two young girls who were killed on the Bosnian Serbian side of the line on Saturday.

Opponents Plan Protests to Greet Castro's High-Profile Visit to France

JY 1995



ETERNAL ROAM — Runners taking off Sunday on the 26-mile Rome Marathon.

The Associated Press

PARIS — Cuban opponents prepared to demonstrate Monday during Fidel Castro's first visit to France, while Danielle Mitterrand, the wife of President François Mitterrand, praised the Cuban government and said its leader was "no dictator."

The three-day visit by Mr. Castro posed a protocol problem for officials who opted for a statesman's welcome minus the flag.

Mr. Castro is officially the guest of the UN Educational, Cultural and Scientific Organization, which he will address.

But he has been invited to lunch by President Mitterrand in a calculated diplomatic gesture.

Mr. Mitterrand, who ends 14 years in office in May, can use the visit to try to press Cuba

back into the mainstream. Havana, with its staggering economy, has been in need of new partners since the fall of communism and its relative abandonment by Moscow.

Mr. Mitterrand met with Mr. Castro 21 years ago while head of France's Socialist Party. The two talked for 10 hours, according to aides.

In January, Mr. Mitterrand castigated the U.S. embargo on Cuba as "stupid."

Mrs. Mitterrand echoed that sentiment.

"It is the greatest international injustice I have ever seen," she said Sunday in an interview on French radio.

The first lady, who reportedly pressed for Mr. Castro's visit, has made numerous trips to Cuba as head of her humanitarian foundation Franco-Liberation.

Mr. Castro is to meet with the assembly speaker, Philippe Seguin, during his visit to France and with leaders of French industry, traditional stops for visiting heads of state.

She praised Mr. Castro's Cuba, saying it had attained "the summit of what socialism can do" for women and education.

She criticized the "indifference of Europe, which has refused to back a regime which gave equality to the people."

Not everyone agreed. The movement Democratic Cuba planned a demonstration on Monday outside Unesco during Mr. Castro's speech and a discussion at the National Assembly on Tuesday to formulate a demand for a "general amnesty, the immediate liberation of all political prisoners and abolition of the death penalty."

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INTERNATIONAL

Undermined by Scandal, Israel's Labor Party Shows Signs of Falling ApartBy Clyde Haberman
New York Times Service

JERUSALEM — If the advisers around Prime Minister Yitzhak Rabin had to list their toughest assignment last week, their first choice would not have been making peace with the Arabs.

They have been finding it far more difficult to make peace within their boss's own Labor Party, which has all the earmarks of a political organization falling apart at the seams.

If Labor comes so unglued that it succumbs to the rightist Likud party in national elections scheduled for next year, it is a safe bet that Israel's negotiations with the Arabs will not be the same.

Mr. Rabin's main headache is a scandal over the illegal siphoning of millions of dollars from Histadrut, the giant trade union federation, to finance the political campaigns of senior Labor figures. Press reports in Israel say police detectives are focusing on at least nine cabinet members and other top government and party officials with long Histadrut connections.

While the prime minister himself has not been publicly implicated and promises an unfettered investigation, he can feel the political ground sinking beneath him anyway. He has hardly forgotten that a financial scandal — over foreign bank accounts seized by his wife in violation of Israeli law at the time —

helped topple his first government, in 1977.

Nahum Barnea, a leading newspaper commentator, described the Histadrut affair as "a cluster bomb" that could politically wreck Mr. Rabin as well as the officials facing possible indictment.

Opinion polls at the end of the week showed the aging prime minister seriously trailing the young Likud leader, Benjamin Netanyahu. Many commentators believe that Mr. Netanyahu has prospered less from positive feelings toward him than from public displeasure with Mr. Rabin and the Labor Party.

In 1996, Israelis will elect their prime minister directly for the first time. Mr. Netanyahu already has

put them on notice that if he wins, he will not feel obligated to honor peace arrangements Mr. Rabin has reached with Yasser Arafat, the Palestinian leader.

Even before the scandal, Labor was running into trouble.

Muslim suicide bombers had visited earlier political gains from agreements with Jordan and the Palestinians. Israelis seemed more worried about rising inflation and tumbling stock prices than reassured by last year's impressive economic growth of 6.8 percent.

More and more, internal Labor politics resembles the roller coaster, with young Turks banting their elders, bawks pummeling down and personal ambitions outstripping

party unity. At one point, so many cabinet members were expressing different opinions on vital topics that Mr. Rabin lamented his inability to stop them from saying "stupid things."

Some political scientists blame Israel's new flirtation with U.S.-style primaries as a reason for the infighting.

Traditionally, the parties' lists of parliamentary candidates were cooked up in back rooms. Now the voters get to choose in party primaries.

This may be a democratic plus. But some Israeli political specialists contend that with primaries still in an experimental stage here, politicians have yet to figure out how to

outabout each other for precious television time without undermining party discipline.

Primaries also force the politicians to raise money on their own instead of relying on party treasuries.

That happened in Labor's first primaries, in 1992, and the charge now is that some party members unlawfully diverted Histadrut funds to their own campaigns.

The union federation, which runs the country's largest pension and health care systems, was Labor's main power base until a party maverick, Haim Ramon, was elected general secretary last year.

To many Israelis, Labor and Histadrut are umbilically linked, and if

one is corrupt then the other must be, too.

Mr. Rabin, a former general, advised party members this past week that elections were too far off for penit.

"Sometimes, one has to put on a helmet and bulletproof vest, and move forward," he said.

Still, many Israelis were disgusted. Samuel Schnitzer, a columnist for the newspaper Ma'ariv, had his own military metaphor.

"Perhaps," he wrote, "we should be thankful that all citizens are equipped with gas masks, if not to protect against possible chemical attacks, then at least against the stench rising from the political garbage dump in which we live."

Christopher Sees New Hope in Syria Peace Talks

Compiled by Our Staff From Dispatches

JIDDA — On the eve of talks in Damascus, Secretary of State Warren M. Christopher spoke Sunday of new hope for a breakthrough in the deadlocked Israeli-Syrian track of the peace process.

"I feel we have a new opportunity on that track," Mr. Christopher said here.

He said recent statements by Prime Minister Yitzhak Rabin of Israel, with whom he held talks Thursday, were "an indication that he felt that it was feasible for him to move ahead on that track."

Mr. Christopher described his Middle East tour as "timely and appropriate."

He is due to hold talks Mon-

day with President Hafez Assad of Syria.

The Israeli-Syrian talks have been suspended since February 1994, deadlocked over the scope and timing of an Israeli withdrawal on the Golan Heights, seized in the 1967 Mid-East war.

Mr. Rabin has refused a total withdrawal from the heights, offering instead a small-scale pullout from the strategic plateau over 30 to 36 months to test Syria's desire for peace. Syria swiftly turned it down.

Gulf foreign ministers, meanwhile, urged the UN Security Council to continue supporting American efforts to keep sanctions on Iraq.

A joint statement issued after

a meeting with Mr. Christopher advised the Security Council "to resist any amendments to the sanctions regime until Iraq fully complies with all its obligations."

Most members of the six-state Gulf Cooperation Council, particularly Saudi Arabia and Kuwait, who feel most threatened by the Iraqi leader, Saddam Hussein, agree with Washington that the oil and trade embargo must remain until Baghdad complies fully with all UN conditions.

Their share of the world oil market could shrink considerably if Iraqi petroleum started flowing again.

The statement urged Iraq to accept a one-time sale of \$1.6 billion worth of oil to finance

stead of foreign ministers, a clear message to the U.S. secretary, after having hosted Iraq's foreign minister, Mohammed Said Sabah, last week.

The two nations support Baghdad's claim that it has complied with the conditions for a lifting of sanctions, including dismantling its weapons of mass destruction and recognizing Kuwait's sovereignty.

The joint statement on Sunday referred in particular to the UN demand that Iraq release all prisoners of war. The statement said 600 remained in Iraq or were unaccounted for. Iraq says it has no more prisoners.

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humanitarian purchases and UN costs in the country.

Turning to Iran, the statement stressed a mutual commitment to security in the Gulf, "including freedom of navigation in its international maritime channels."

Washington has voiced concern about Iran's reported deployment of anti-aircraft missiles to the Strait of Hormuz, where Tehran is in a dispute with the United Arab Emirates over three strategic islands.

Mr. Christopher arrived from Israel, met with Prince Saud al Faisal, the foreign minister, and the foreign ministers of Kuwait, the United Arab Emirates and Bahrain.

(AP, AP)



READY TO TURN RED SQUARE GREEN — An Irishman handing out free candy Sunday in Moscow as the wearers of the Green celebrate an early St. Patrick's Day.

CIA: Clinton's Choice Will Have a Role in Setting Policy

Continued from Page 1

and then after an FBI check someone comes out of the wall with some pretty nasty allegations and the general basically decides he doesn't want to go through hell, having to face those allegations.

"That's unfortunate, but it's part of the time we live in."

General Carns said in interviews that in bringing a young Filipino man to the United States, he had apparently broken immigration and labor laws. Mr. Carns said the man, Elvino Runas, had also made "groundless, outrageous, tabloid charges" about members of the Carns family.

General Carns joins a parade of people to be named to senior positions by Mr. Clinton, only to withdraw or be forced out after controversy arose.

Zoe Baird, Mr. Clinton's first choice to be attorney general, was forced out after disclosures that she had not paid taxes for domestic help. Similar questions helped scuttle his second choice for the job, Kimba Wood.

ferred to the FBI for investigation."

"It is a little hard to understand why the White House did not know or pursue these issues long ago," Mr. Specter said in a statement. "All factors considered, we have another serious undermining of U.S. competency and credibility for the whole world to see."

The White House press secretary, Michael McCurry, suggested public officials were subjected to unfairly intense scrutiny.

"It's probably a good thing for our republic that we didn't have background checks like this in place in the time of Thomas Jefferson," Mr. McCurry said.

Some prominent Republicans endorsed that view and said both parties were to blame.

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g Apart

U.S. Efforts to Support Mexico Tainted by Corruption Charges

By Pierre Thomas
and Daniel Williams
Washington Post Service

WASHINGTON — During the last two years, while the Clinton administration was selling the American public on a partnership with a forward-looking Mexico, U.S. officials were receiving regular allegations of corruption against senior Mexican officials and their associates, including accusations of links to narcotics dealers. U.S. officials said.

In one case, that of now-jailed former deputy attorney general, Mario Ruiz Massieu, the claims were strong enough that U.S. officials warned the Mexican government about their suspicions, but Mexico did nothing to curb him, the officials said.

Mr. Ruiz Massieu, arrested recently in New Jersey, is now wanted by Mexico in connection with a suspected cover-up of his brother's murder. The U.S. authorities are considering an extradition request, while the Mexican government is circulating charges that Mr. Ruiz Massieu was linked to a major drug cartel and stashed away millions of dollars in U.S. bank accounts.

In another instance, U.S. officials last year received a tip that a relative of a presidential

candidate, Luis Donaldo Colosio, was suspected of using an airstrip as a transit point for drugs. Although there was little to suggest Mr. Colosio was involved, U.S. officials decided they had to consider the matter given his anticipated ascension to the presidency. Mr. Colosio was later assassinated.

The revelations illustrate a long-standing U.S. dilemma regarding Mexico. Washington has been concerned about corruption at top levels of the Mexican government at the same time that it has actively portrayed the country as a critical and valued ally, particularly in trade and migration control.

The resulting contradictions have become acutely apparent recently as a stain of allegations of corruption and mismanagement has spread over the administration of former President Carlos Salinas de Gortari. He was a favorite of the Bush and Clinton administrations throughout his 1988-1994 term, and was until no more than two weeks ago Washington's leading candidate for the presidency of the World Trade Organization.

Need to rely on the Salinas government during his term, but wary of corruption, U.S. officials embarked on a policy of "selective engagement," in which they dealt with members of the Mexico admin-

istration believed to be trustworthy.

"We have been selective with whom we deal," said a senior federal law enforcement source. "You had no way of knowing where the corruption might be." U.S. officials say accusations against Mexican officials, which often lead nowhere, are handled discreetly, partly not to spook the suspects and partly not to offend Mexico. Despite the frustrations, the officials say, a break in cooperation including sharing information and locating drug crops would merely open the way to heavier traffic through Mexico. Recently, a similar rationale was used to justify continued cooperation with Colombia.

Traditionally, Washington has put a higher premium on stability in Mexico than on change, as even egregious electoral fraud in the past drew barely a whisper of criticism. U.S. officials also say they are reluctant to publicly chastise Mexico on such issues as drugs and human rights because harsh words might invite a backlash from the highly nationalistic Mexican public.

Soviets went into Afghanistan. As a result, Pakistan became the frontline state in the battle against communism. From 1979, Muslims from all over the world came to Pakistan to help the Afghan resistance. They began schools which gave military training to students to go and fight in Afghanistan.

Q. Islam seems to be turning increasingly violent in Pakistan. Why?

A. Islam is not a violent religion. It is a message of brotherhood, peace, tolerance and harmony.

However, Pakistan has had a violent past. We had a dictatorship from 1977 under General Zia ul-Haq. During those years, different groups were patronized to quell and subdue the rest of the people and keep them in fear.

Internally, the dictatorship tried to clothe itself with the legitimacy of Islam, portraying the religion with its own narrow vision rather than what it really is. This led to much fanaticism. A lot of laws were passed which now need constitutional change. They include laws discriminating against women and minorities.

The sad part is that the West never spoke up against these laws at the time.

Q. Why?

A. This was the period when the

U.S. is for the Pressler amendment to go. It cut off all military and economic aid to Pakistan because the president said he could not certify that Pakistan did not possess a nuclear explosive device.

Pakistanis feel this is a discriminatory law because it does not apply to all countries of the world.

Pakistan has paid the U.S. about \$1.2 billion for F-16 jet fighters and other equipment. We are getting neither delivery nor our money back.

Pakistanis can't understand why America is doing this. These are the very things that fuel fanaticism.

Q. What will you tell Washington about the status of Pakistan's nuclear program? Does Pakistan possess a nuclear explosive device?

A. Pakistan does not possess a nuclear device. Pakistan has developed certain technology; it has enough knowledge to put together a nuclear device, but has deliberately chosen not to do so to support the objectives of regional and global nonproliferation. Even the U.S. now admits that we have not put together a device.

America is a fair country. Yet, it continues to penalize Pakistan unfairly. It must re-evaluate its policy.

INTERNATIONAL

Q & A: A Bhutto Plea for Aid Against Extremism

Prime Minister Benazir Bhutto of Pakistan's expressed outrage at the killing last week of two Americans and the wounding of another who worked at the U.S. Consulate in Karachi. On a visit to Singapore to seek investment, Miss Bhutto spoke with Michael Richardson of the International Herald Tribune.

its soil to be used for subversive action against any other country. [Ramzi Ahmed Yousef is the suspected mastermind of the 1993 World Trade Center bombing in New York.]

Q. Are you now getting the kind of support from the West you need?

A. We are not getting the type of

"We have started regulating the schools.

We are not going to allow people to preach hatred and violence."

political and moral support we really

ought to be getting in our fight to control sectarianism, militancy and the narcotics trade.

Pakistan today is the frontline state

against the forces of extremism and

fanaticism. It is a wall of modernity

against all those values that under-

mine global stability. Pakistan has a

constitution and a democratic govern-

ment. It ought to be strengthened and

supported.

Q. You will be visiting the U.S. next

month. What kind of American assis-

tance does Pakistan need?

FOR BRIGHTNESS, VOLUME AND CONTRAST, SONY GOT A BETTER RECEPTION IN WALES.

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THE WELSH ADVANTAGE

U.S. Finds Secrets In Vacant UN Office

Incident in Somalia Creates Stir

By R. Jeffrey Smith and
Julia Preston
Washington Post Service

WASHINGTON — Several boxes containing classified U.S. intelligence documents were discovered by American officials in a vacant United Nations office in Somalia days before the pullout of United Nations peacekeepers early this month, prompting some American officials to question whether the international organization had mishandled sensitive U.S. secrets.

President Bill Clinton has ordered the Joint Chiefs of Staff to investigate what some officials are depicting as a worrisome breach of security. The incident has attracted the attention of Republican legislators skeptical of U.S. cooperation with the United Nations.

No evidence has been found so far that the U.S. documents fell into the hands of the Somali warlords who worked to frustrate the two-year, \$2 billion UN peacekeeping effort, according to American officials in Washington and New York. The United Nations denied that it committed any error.

But the U.S. military's Central Command, which ran the ill-fated operation with the United Nations in Somalia, is investigating why the boxes of documents were left unsealed in the vacated United Nations office and whether U.S. intelligence sources and methods — including spy technologies — might have been compromised.

Included in the boxes were "source reports" recounting sensitive interviews with Somali informers, daily intelligence reports on the Somali political situation, classified data designated "UN-releasable," some computer diskettes and documents stamped "Secret, Win-tell" that involved highly sensitive U.S. sources and spying methods, according to an American official.

American officials familiar with the investigation said not only that UN officials should not have left the documents behind — as some officials say apparently happened — but also that some of the documents probably never should have been turned over to the United Nations.

They said the investigation is also to look at why many documents marked "NOFORN" — or No Foreigners — were in the hands of UN intelligence officials commanded by a Nigerian colonel.

2 Are Arrested in Murder Of Burundi Energy Chief

Agence France-Presse

BUJUMBURA, Burundi — The police said Sunday that they had arrested two suspects in the killing over the weekend of Energy Minister Ernest Kabushemeye, a member of the Hutu majority whose murder increased fears of a new ethnic bloodbath.

The unclaimed attack on Mr. Kabushemeye, who was shot and killed Saturday as he drove through the center of the capi-

International Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

Oil Dealings With Iran

American oil companies are pursuing their own foreign policy, in defiance of U.S. interests. Washington is trying to discourage any U.S. trade with Iran, and U.S. law bars the import of Iranian products, but the largest purchasers of Iranian oil are American oil companies. They get around the letter of the law by selling the oil abroad and using foreign subsidiaries to handle the business. The latest and most blatant case is a Conoco deal to develop a large Iranian field in the Gulf, a contract that could be worth \$1 billion. Conoco, owned by Du Pont, will handle the deal through a Dutch subsidiary.

By choosing Conoco over French and other competitors, Iran is signaling that it wants to do business with the United States, but these deals are wrong. They provide revenue for a rogue state that is trying to build nuclear weapons, serves as a base for terrorism and opposes U.S. interests at every opportunity. In addition, the oil deals undermine U.S. policy by giving foreign governments and companies an easy excuse to trade with Iran despite Washington's urging to refrain.

It is impossible to shut down all international commerce with Iran. There are too many foreign governments and businesses willing to ignore Iran's behavior. It is also difficult to write a law that would prevent every American enterprise from conducting business with Iran, although Senator Alfonse D'Amato is trying.

The problem is that U.S. law does not easily reach beyond America's borders. Foreign-based subsidiaries of American companies can take the U.S. government to court overseas if it tries to stop them

— THE NEW YORK TIMES

Slowly in Guatemala

The last burrah of Central America's political wars of the 1980s is being played out in Washington's Lafayette Square. An American activist named Jennifer Harbury is beginning a hunger strike to spur Bill Clinton to squeeze Guatemala for word of her husband, Efrain Ramaña Velásquez, a guerrilla commander captured in a firefights with the Guatemalan army in 1992. One set of questions is whether he is alive and, if not, how he died. A second set goes to American policy in this case.

Few dispute that the Guatemalan army, the region's last feudal military force, is capable of the cruelties and deceptions that Ms. Harbury attributes to it. The guerrillas, of course, have their own deprivations to account for. The U.S. government says it has "no reports to indicate" that Mr. Ramaña "was alive much beyond the first few weeks after his capture," but it continues to press the Guatemalans. It is a hard case.

The fate of a single guerrilla would not have been taken up by Washington at all except that he had an American wife. It also mattered that meanwhile a little noted but still active and promising peace process opened up in Guatemala under Unit-

— THE WASHINGTON POST

Republicans Are Wrong

The stark unfairness of the House Republicans' legislative agenda was on display last week when committees approved three bills that would drive millions of poor people off welfare in order to finance tax cuts that have been made even more favorable to the rich. The Republican Party is caring in a destructive direction.

By cutting perhaps \$70 billion, or 15 percent, out of poverty programs over five years, the Republicans would drive hordes of the poor off welfare without any help in finding jobs. This assault on the indigent cannot be explained away as necessary belt-tightening to reach a lofty purpose, like cutting the federal deficit. The Republicans need these cuts now to offset their first round of tax cuts, even before they get down to deficit reduction.

Last week they released proposals for cutting taxes that start with the skewed promises in the "Contract With America" and make them worse by giving less relief than originally planned to low-income families. Much of the tax cuts goes to upper-income families with capital-gains income, retirement savings accounts and Social Security benefits. Middle-class families with children get a tax credit. Gone are previous proposals for refundable tax credits for poor families with children or which incur expenses for adoption.

To help pay for these tax cuts, the welfare bills would discard the current pledge to aid every entitled poor person. They would cap federal spending for cash assistance, food stamps and child welfare and turn over block grants to the states for them to spend largely at will. These ingredients do not mix well.

Block grants would be callous to the poor and harmful to the economy. When recessions hit, Washington now automatically spends whatever additional welfare

— THE NEW YORK TIMES

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How America Might Have Helped Avert the Slaughter

WASHINGTON — Warren Zimmermann, the last American ambassador to the disintegrating Yugoslavia (1989-1992), has done the rare and deeply admirable thing of publicly acknowledging some American policy errors he had a hand in along the way.

I do not mean to penalize this widely respected, now retired diplomat for a virtuous deed. I do mean to note his candor, acuity and courage and to hold him up as a model of self-accountability for government officials everywhere.

In a memoir in Foreign Affairs magazine, Mr. Zimmermann avoids the familiar self-serving defense and apology you

Vance and the UN leadership in New York took the traditional if puzzling line that peacekeepers are used after a conflict, not before.

might expect from one who has committed the act that diplomats blithely refer to as "losing" a country. He faces up honestly to his own role, and also to his country's role, in the Yugoslav disaster.

Skip back to mid-1991, when the Serbi-

an-led Yugoslav army (JNA) started shelling the Croatian cities of Vukovar and Dubrovnik. Mr. Zimmermann writes:

"Shelling civilian populations is a war crime. Vukovar and Dubrovnik led directly to the merciless attacks on Sarajevo and other Bosnian cities. Yet our Western government at the time called on NATO's military force to get the JNA to stop shelling Dubrovnik, although NATO's supreme commander, General John Galvin, had prepared contingency plans for doing so. The use of force was simply too big a step to consider."

It is a bitter illustration of how we are all at risk of becoming prisoners of the mind-set of the day. But think about what Mr. Zimmermann is saying. Timely and judicious applications of force might have made a difference.

This is one man's judgment. But it is the judgment of the ranking American official on the ground, whose insight is made more credible by his inclusion of himself in the ranks of those who didn't fully grasp the point the first time around.

By late 1991, Bosnia's president, Alija Izetbegovic, was desperately casting about for ways to save his country from its voracious Serbian and Croatian neighbors. "He asked for and got European Commission observers in Bosnia," recalls Mr. Zimmermann.

"He asked for, but did not get, UN peacekeepers there. [Cyrus] Vance and the UN leadership in New York took the traditional if puzzling line that peace-

keepers are used after a conflict, not before. The U.S. government did not support Izetbegovic on the request for peacekeepers either. In a cable to Washington I urged this innovative step, but did not press for it as hard as I should have."

Ah, yes: the fault of conditional ardor, a familiar bureaucratic syndrome. Which of us, finding ourselves in a squeeze, has not raised a bold possibility and then softened its impact by a mild manner of argument? It is a way of having it both ways. But again, Mr. Zimmermann adds to his credibility by fessing up.

In these two episodes, he is describing two moments at which America might have made a difference by raising the stakes, with military force in the first, and peacekeepers in the second.

The results of missing these moments were overwhelming. Frustrated on their request for peacekeepers, the Bosnians made what Mr. Zimmermann regards as the "disastrous political mistake" of asking for international recognition as an independent state — a step that gave the vastly more powerful Serbia

Unopposed by force at Vukovar and Dubrovnik, the emboldened Serbs swept on to new rounds of devastation and ethnic cleansing, advancing the crisis that is still mushrooming today.

The Washington Post

The World Outside Isn't About to Let America Relax and Ignore It

WASHINGTON — The world is not going to give the United States and its politicians a pass. What experts have been saying for months has now become evident even to people like me. The respite from international responsibilities that began when the Cold War ended is just about over.

Americans are due to rediscover, for what must be the 20th time, that the world is a dangerous place that puts inexorable demands on America and its leaders.

To be sure, there have been challenges aplenty since the Berlin Wall came down and the Soviet Union imploded. Kuwait, Bosnia, Somalia and Haiti all have clamored for attention. But now the stakes are getting much higher.

Almost unknown to the American people, the president has pledged that up to 20,000 U.S. troops will go into the war-torn republics of the former Yugoslavia to help the United Nations peacekeeping forces withdraw. That pledge could be called before this month is out.

The mess in Bosnia and Croatia is a reminder that the NATO alliance has been unable to fulfill its security mission in Eastern Europe. It is also snarled in debate over whether to expand its membership to the borders of Russia.

France and the United States are quarreling over spy charges. The old problems remain in the Middle East and the Gulf. The New York Times headlines: "U.S. Says Evidence Shows Baghdad Is Recomding Its Plans to Make Chemical Arms." The Washington Post reports the United States at loggerheads with Russia over a proposed Russian sale of a nuclear reactor to Iran.

But all of this pales compared with what is happening in two nations that are absolutely vital to the interests of the United States and are headed for leadership crises that could crack their regimes.

The United States, wisely and inescapably, given the common

border, has made a huge investment in the economic and political development of Mexico, symbolized by the 1993 approval of the North American Free Trade Agreement, which will create a virtual free trade zone in all of North America. But the collapse of the peso and the unraveling of the Mexican ruling party threaten to reverse the progress that has been made there in recent years.

In the best scenario, if the \$20 billion U.S. loan guarantee to Mexico works, the conditions placed on that bailout virtually guarantee a severe recession in Mexico, with likely impact on emigration to the United States.

Moreover, it will add to the political strains on the government of President Ernesto Zedillo, who has ordered the arrest of his predecessor's brother for allegedly planning the assassination last year of a rival political leader.

The flight of capital, which was supposed to be stopped by the U.S. and international loan guarantees, has continued unabated.

The United States could easily face a chaotic situation on its southern border within months.

The situation looks no brighter

in Russia. Boris Yeltsin may or may not be able to control his drinking, but clearly he can no longer keep order in the Kremlin and in the country. And this is the man Americans count on to safeguard the second-largest hoard of nuclear weapons in the world.

After the murder of Vladimir Lisin, the country's most influential television commentator, by the Russian Mafia, the Russian Security Council said: "The lack of tangible results from the battle against organized crime is discrediting state powers" and "threatening the security of Russia."

The next day, The Washington Post reported that Mr. Yeltsin's

chief of staff, Serhiy Filatov, "described an atmosphere of paranoia and hostility" in the Kremlin, with hard-liners, led by Yeltsin's bodyguard, Alexander Korzhev, exerting ever greater influence.

In the face of all this — and continuing problems with international drug trafficking, terrorism and nuclear proliferation — it is astonishing to hear members of Congress talking of America relinquishing its international obligations, or hear politicians and pundits express the view that domestic issues will surely dominate the 1996 presidential election.

What world are they living in?

The Washington Post

There's a Smoking Mountain Across the Rio Grande

By Thomas L. Friedman

MEXICO CITY — Since taking office on Dec. 1, President Ernesto Zedillo has been overwhelmed by Mexico's economic crisis, which erupted 19 days after he was sworn in. This has left the impression that his cabinet is the gang that couldn't shoot straight.

His aides openly concede that they were not prepared to deal with the economic situation, largely

ly because they thought they were going to inherit a Rolls-Royce economy, and when they discovered that they had the keys to a jalopy about to be repossessed, they weren't sure what to do. It has taken them two months to come up with a real rescue plan.

But what has been obscured is that Mr. Zedillo, while stumbling

around in economics, has simultaneously instituted an impressive series of political reforms — making Mexico more open, democratic and less corrupt than ever before — for which he has received no credit, at home or abroad.

Since coming to office, Mr. Zedillo has sacked the entire corrupt Supreme Court, which he replaced with new judges and made independent of the presidency; he has suppressed the guerrilla insurgency in Chiapas; he has empowered the traditionally rubber-stamp Mexican legislature with real oversight responsibilities; he has given the political opposition a significant role in his cabinet; he has begun instituting the rule of law, where arbitrariness used to reign; he has jailed the brother of ex-President Carlos Salinas, in a courageous effort to root out corruption in Mexico's Mafia-style ruling class.

In the short run, Mr. Zedillo is calculating that because Mexico is about to go through a brutal recession, with massive unemployment, having a more open political system that allows for more demonstrations and channels discontent via the ballot box may enable this society to blow off steam without blowing off the lid.

In the long run, he is gambling that by diffusing power, rather than concentrating it as his predecessors did, he will ultimately have more legitimacy, more authority and more cooperation from labor and business in getting this economy out of Chapter 11.

That is a big bet.

Mexico has always been a country that relied on a strong presidency to deal with crises, and what is democracy to Mr. Zedillo?

The New York Times

Hurting Cubans Just for the Fun of It

By William F. Buckley Jr.

NEW YORK — If Senator Jesse Helms's ride on the defense bill gets passed, we Americans ought at least to know what we are up to. The measure is designed to tighten the lid on Fidel Castro's Cuba and goes so far as to forbid the importation of any agricultural products from any country that buys Cuban sugar.

The measure is approved by Bob Dole, the Senate majority leader, who is running for president. Campaigning in New Hampshire, he made dark references to a prospective easing by the Clinton administration of the general boycott on Cuba.

For the record (as the tergiversators usually begin), I have probably mused as many anti-Castro columns, speeches, articles and books as anyone alive. I think it important to say about Mr. Castro that he is a genuinely evil man, probably a sadist, certainly someone whose tortures, even of former companions, make for reading as lurid as the autobiography of Armando Valladares, who described his two decades in prison for the offense of questioning his old comrade's judgment on some matter or other.

There would have been plenty of justification over the years for launching an armed invasion of Cuba to replace Mr. Castro. The Bay of Pigs venture should have been forcefully backed by the government that initiated it. The series of exploding cigars and poisoned wet suits we sent to Cuba (Operation Mongoose) make the stuff of opera buffo, but the idea was too cool to be defensible. When the nuclear missiles arrived in Cuba, the consensus within the

established Senator James P. Kerasi of Missouri proposed a rider that I would have voted for at the time and so would Jesse Helms, namely: No country trading with the Soviet Union would qualify for American aid. What happened, in this order, was 1) the Kerasi amendment was defeated, 2) the European allies proceeded to trade with Moscow, and 3) pretty soon we Americans joined in and mercifully traded with the country dedicated to our destruction.

People ask: When will Castro go down? That was first heard, in the context of the manifest imminence of his departure, soon after the Berlin Wall came down. That was six years ago.

If Mr. Castro is significantly weaker today, it is because his vital organs are aging. He finds no difficulty whatever in subduing the impoverishment of the Cuban people in the name of his own majestic survival.

Oh God how fine it would be to see him arrested and tried by a Cuban court and then just plain shot, assuming that Cuban executioners would have the time to train to shoot without first torturing.

Representative Ileana Ros-Lehtinen, who represents a district in South Florida in which a majority are Cuban-American, comments that the boycott measures "have been effective and successful, and it would be wrong to do away with them."

They have not been successful. Meanwhile, Mr. Castro has become no more effective an enemy of the United States than Papa Doc Duvalier was. Huffing and puffing about bringing him down is sheer onanism, and we should be too grown up for that business.

When the Marshall Plan was

described as one of "massacre and robbery tempered by assassination." As the great

Slaughter

How to Get Managers to Do Better (Executive Incentive Plans)

By Erik Ipsen
International Herald Tribune

LONDON — In the brave new world of shareholder activism, a world where an obscure fund manager in Chicago can foreshorten the career of even a titan of international advertising like Maurice Saatchi, executives have lately become painfully aware of the need to deliver results.

As the ensuing exodus of both clients and key executives at Saatchi & Saatchi plc demonstrated, however, shareholder stick-wielding can only be a last desperate resort.

In the never-ending quest to bend recalcitrant company managers to shareholders' wills, to persuade them to perform better, to think longer term, to think more like shareholders or simply to stick around, attention is turning increasingly to what might uncharitably be called bribery.

In Britain, where managers are routinely maligned for "short-termism," the nation's largest investors — its insurers — published guidelines last year for executive incentive plans.

The aim was simple. "We want to introduce a long-term mindset," said Richard Regan, head of investment affairs at the Association of British Insurers.

To attack the perceived lack of strategic vision in many companies, the association recommends that companies take a hefty slice of bonuses paid to senior executives and put it in incentive plans that pay out from three years on up. More importantly, Britain's

biggest investors want to make sure that those payments flow only if certain performance criteria are met.

At Reuters plc, for instance, the company's top 17 executives as of last year had payouts on their long-term compensation plan linked for the first time to the company's ability to outperform the average total return for companies listed in the Footsie 100 stock index. Other companies have turned to measures ranging from staff morale and customer satisfaction to the margin by which earnings per share growth outstrips inflation.

In the past, such attempts to get corporate leaders to excel at their jobs generally meant dangling a single carrot in front of them: share options exercisable at some future date. In the United States, the great bear stock market that saw corporate earnings double in the 1970s while share prices stagnated, rendered such incentives worthless. Not surprisingly, executives began demanding new plans that would reward their successes while not holding them hostage to the vicissitudes of the stock market.

In Britain, the lead has come from the other side. There the shift from options is based on a shareholder revolt. At Reuters' chairman, Sir Christopher Hogg, explained his company's move away from such a plan: "The fact is that shareholders can on occasion feel that managers have been excessively rewarded by share option schemes."

Mr. Regan is considerably blunter. For executives, he says, "it's heads I win, tails I don't lose." If the shares have risen, then the executive can cash in his options for a killing. And if they haven't, he lets the option drop and loses nothing. Even worse, some institutional investors have complained that a rising share price

may have less to do with dazzlingly brilliant corporate helmsmanship than with a bull market or even simply inflation.

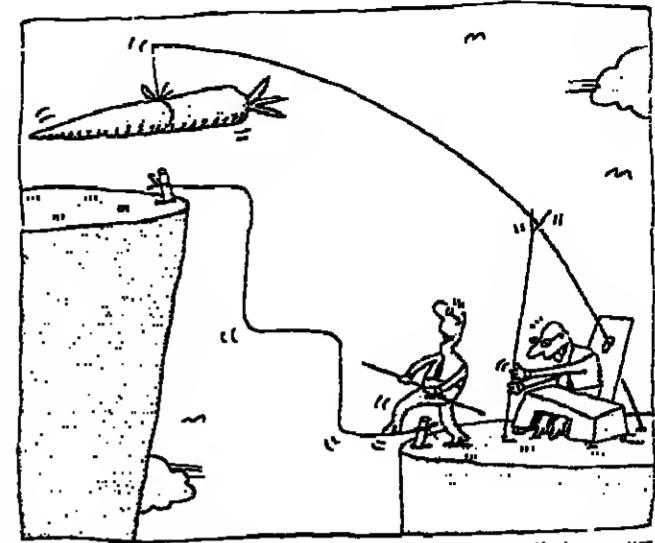
It is a problem that Grand Metropolitan plc, the world's largest spirits company, addressed last year by tacking on new performance conditions to its existing options-based incentive plan.

While these new incentive plans have all the wholesome appeal of mom and apple pie on paper, in practice they, too, have had their problems. "If they are not properly designed," said Phillip Probert, an associate partner in the compensation practice at PA Consulting, "there can be certain presentational problems."

Indeed, there can. On the one hand, they have successfully insulated managers from the vagaries of the stock market. But some of the newer plans have outraged investors by delivering into the hands of executives fat bonuses for three or more years of splendid work at politically inopportune moments, when a sudden corporate misstep, for instance, has just sent their company's shares cascading through the floor boards.

If the deferred bonus is in the form of shares, the executives will feel some of the pain. If it is merely a delayed cash payment, there will be none.

In the United States, which led the way in the march away from simple stock options plans, there is growing doubt as to some of the newer wrinkles on the theme. "In the United States, the shareholders view is that executives are hired to maximize the long-term value of their stock," said John McMillan, a managing director in the Houston office of William M. Mercer, the world's largest compensation and benefits consultants.



In Europe, the debate between shareholders and managers holds far less interest. There such plans have never taken root as they have in Anglo-Saxon nations. In Germany, for instance, institutional investors need not influence corporate chieftains or even policy from afar.

There, points out Richard Bednarek, director of executive remuneration at the Hay Group, "many of the banks have major stakes in corporations and actually have their people on the board influencing strategy directly."

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Spain: 34-91-40-00-00

Australia: 61-2-85-55-55-55

New Zealand: 64-9-31-22-22-22

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Other countries: 33-1-41.43.03.01

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CAPITAL MARKETS ON MONDAY

Most Active International Bonds

The 250 most active international bonds traded through the Euroclear system for the week ending March 10. Prices supplied by Telekurs.

Rank	Name	Country	Maturity	Price	Yield
124	Belgium	7	04/29/99	97.4000	7.1700
125	Belgium	7	05/10/99	97.4000	7.1700
126	Belgium	5/14	05/25/97	98.7800	6.8200
127	Belgium	7/14	10/15/04	96.3500	6.0400
128	Belgium	9	03/25/03	104.7000	8.4000

British Pound

Rank	Name	Country	Maturity	Price	Yield
201	Net. & prv. FRN	4%p	03/02/01	99.3150	6.8700

Canadian Dollar

Rank	Name	Country	Maturity	Price	Yield
223	IFC	zero	07/15/00	63.0000	8.7200

Danish Krone

Rank	Name	Country	Maturity	Price	Yield
2	Denmark	7	12/15/04	86.3500	8.1100
11	Denmark	8	05/15/01	93.4300	8.5400
13	Denmark	8	03/15/04	91.4300	8.7300
23	Denmark	9	11/15/04	91.5500	8.9100
25	Denmark	6	12/10/99	89.7000	8.6900
29	Denmark	9	11/15/98	100.8500	8.9200
49	Denmark	9/4	08/10/95	100.5000	9.2000
50	Denmark	9	08/10/95	100.5000	9.2000
62	Denmark	8/4	08/10/94	94.2800	5.4200
84	Denmark	zero	04/03/95	98.7612	7.4400
85	Denmark	0	02/15/01	94.7500	8.4400
94	Denmark	7	11/08/94	95.4500	8.4400
103	Denmark	zero	10/02/95	96.5190	6.3500
113	Denmark	zero	07/03/93	98.3031	5.8700
126	Denmark	7	08/15/97	97.3500	7.1900
131	Denmark	8	07/15/03	98.3500	6.9700

Deutsche Mark

Rank	Name	Country	Maturity	Price	Yield
1	Germany	7/4	01/03/95	99.4700	5.4000
2	Treuheld	7/4	09/07/04	100.2400	7.4000
4	Germany	6/4	07/15/95	95.4200	6.4000
5	Germany	6/4	07/15/95	95.4200	6.4000
6	Germany	5/4	12/20/95	102.4100	8.5400
7	Germany	7/4	11/11/94	102.3753	7.7000
8	Treuheld	6/4	07/15/94	98.2500	6.5000
9	Germany	5/4	12/20/94	101.2200	7.5100
10	Germany	7/4	12/25/94	101.2200	7.5100
14	Treuheld	5/4	05/13/94	95.4100	6.7000
15	Germany	6/4	01/04/94	91.9614	7.4300
16	Germany	6/4	01/04/94	91.9614	7.4300
17	Treuheld	5/4	05/13/94	91.9614	7.4300
18	Germany	6/4	01/04/94	91.9614	7.4300
19	Germany	6/4	01/04/94	91.9614	7.4300
20	Treuheld	5/4	05/13/94	91.9614	7.4300
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24	Germany	5/4	01/04/94	91.9614	7.4300
25	Germany	6/4	01/04/94	91.9614	7.4300
26	Germany	5/4	01/04/94	91.9614	7.4300
27	Germany	6/4	01/04/94	91.9614	7.4300
28	Treuheld	5/4	01/04/94	91.9614	7.4300
29	Germany	6/4	01/04/94	91.9614	7.4300
30	Germany	5/4	01/04/94	91.9614	7.4300
31	Germany	6/4	01/04/94	91.9614	7.4300
32	Treuheld	5/4	01/04/94	91.9614	7.4300
33	Germany	6/4	01/04/94	91.9614	7.4300
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73	Germany	6/4	01/04/94	91.9614	7.4300
74	Germany	5/4	01/04/94	91.9614	7.4300
75	Germany	6/4	01/04/94	91.9614	7.4300
76	Germany	5/4	01/04/94	91.9614	7.4300
77	Germany	6/4	01/04/94	91.9614	7.4300

Currency Mess Threatens EU's Goal

By Carl Gewirtz

International Herald Tribune

Thus, the coming performance of the dollar — and the consequent impact on exacerbating or relieving currency strains within Europe — looms as a momentous development in facilitating or impeding the road to monetary union.

Jim O'Neill, London-based analyst at Swiss Bank Corp., whose view on the dollar has been

Bankers Trust Unlikely to Set Tone With Loss

Reuters
NEW YORK — Other U.S. commercial banks are unlikely to follow Bankers Trust New York Corp.'s lead in reporting a first-quarter loss, although Latin American trading is likely to be a problem area for everyone, analysts said.

Bankers Trust on Friday said that losses in certain of its Latin American and other trading positions, along with a sharp drop in derivatives revenue, would cause it to post a loss after taxes

U.S. Agency Raps 2 Wall Street Firms

By Peter Truell
New York Times Service

NEW YORK — The Resolution Trust Corp. said it would stop doing business with Salomon Brothers Inc. and Morgan Stanley & Co. because the two firms had violated the agency's rules that cover gifts and entertainment for employees of the agency.

The decision may be largely symbolic. The agency, set up by Congress in August 1989 to manage and sell failed savings institutions, is winding down its activities, having sold 744 savings institutions and overseen asset sales and the collection of more than \$384 billion.

A spokesman for Resolution Trust said that the two investment banks together had earned \$65.9 million from the agency in underwriting and advisory fees from January 1991 to May 1993.

The bulk of that money, \$45.9 million, was earned by Salomon, he added.

While the investigation found no evidence to draw a connection between the gifts and entertainment extended by the firms and the award of any particular contracts, the agency said, "the offering and acceptance of meals and entertainment" are prohibited by its regulations.

Disney TV Loses its Leader

Reuters
NEW YORK — Richard H. Frank is stepping down as head of Walt Disney Co.'s television programming business, the company has announced.

Dennis F. Hightower, 53, who headed Disney Consumer Products for Europe and the Middle East, was named to succeed Mr. Frank. That unit includes book and magazine publishing, merchandise, music and software for Europe and the Middle East. The company said Mr. Frank would continue to consult for Disney.

The move by Mr. Frank, 52, follows a number of departures of top creative executives since the head of Disney's studio, Jeffrey Katzenberg, resigned in August in a dispute with the chairman, Michael D. Eisner.

Under Mr. Frank's supervision, television has become an increasingly important business for Disney. It has produced prime-time hits like "Home Improvement," "Blossom," and "Empty Nest," as well as syndicated programs.

Mr. Frank came to Disney in 1985 from Paramount Television Group, where he was president. At Disney, he worked closely with Mr. Katzenberg.

Sammons Sells Half of Cable Systems

Associated Press
DALLAS — Sammons Communications Inc. has agreed to sell more than half of its cable television systems to Marcus Cable for \$1 billion, the companies said.

The properties acquired by Marcus serve some 650,000 customers in the Dallas-Fort Worth area, northern and southern California, the Midwest and the South.

Dallas-based Sammons, privately owned, serves a total of 1.1 million customers in 18 states. The deal is subject to regulatory approval and other conditions, and is expected to close by the end of the year.

Marcus said the deal would make it the eighth-largest cable company in the country, with approximately 1.2 million customers. The Dallas-based private company was formed in 1990 by Goldman, Sachs & Co. and Jeff Marcus, who was vice president of marketing for Sammons 23 years ago.

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The Week Ahead: World Economic Calendar, March 13 - March 17

A schedule of this week's economic and financial events, compiled for the International Herald Tribune by Bloomberg Business News.

Asia-Pacific

• March 13: Hong Kong: Three-day conference and workshop organized by AIC Conferences on Asian capital markets for 1995.


of about \$125 million in the first quarter.

"Other bottom-line losses are unlikely at commercial banks this quarter," said Raphael Soifer, an analyst at Brown Brothers Harriman & Co.

Spokesmen for J.P. Morgan & Co. and Citicorp said they

had no reason to change their policy of not making statements on earnings until the usual release time for results after the end of the quarter.

Rumors that a large U.S. bank had large Latin American trading losses have been rife in the markets in the past few days.

"Bankers Trust will be the only one with a loss," said Frank DeSantis, analyst with Donaldson, Lufkin & Jenrette Securities Corp. "Morgan has been setting low expectations. Just about everyone will do badly in Latin American trading."

He said Bankers Trust, Morgan and Chase were big players in emerging markets trading, but he said he did not see major problems at either Morgan or Chase. He also said he believed that Latin American trading would pose no problem for First Chicago.

Bankers Trust was hit hardest by Latin America because of its large proprietary trading positions. Mr. DeSantis said.

The predicted loss will be Bankers Trust's first quarterly loss since the third quarter of 1989, when it added \$1.6 billion to Third World loan-loss reserves.

Bankers Trust would not detail its trading loss positions.

Mr. Soifer said the surprise trading loss had to have been about \$300 million in order to more than wipe out first-quarter earnings. Previously, analysts had expected the bank to earn about \$140 million.

Bankers Trust said derivatives revenue had fallen sharply in the first quarter from the fourth quarter of 1994, when derivatives earned \$28 million. That was down from the record in the first quarter of \$114 million.

Despite the problems in derivatives for the bank, however, analysts said that Latin American trading losses accounted for most of the first-quarter loss.

Mr. Soifer said that Bankers Trust's business remained viable but that revenue would recover slowly in 1995. He saw no danger of collapse because capital and liquidity remained strong at Bankers Trust.

Korea Charged for Embezzlement

SEOUL (Reuters) — Investigators have arrested two financiers in Seoul on charges that they embezzled nearly 20 billion won (\$25.5 million) in collusion, a Seoul prosecution official said.

The official said that Lee Byung-sung, 43, a Seoul branch manager of Tong Yang Securities Co., and Chung Jong-won, 34, a stock investment section chief at Ssangyong Fire & Marine Insurance Co. were accused of collaborating on secret share sales between 1991 and 1994.

Olivetti Set to Announce Alliances

HANNOVER, Germany (Bloomberg) — Olivetti Group SpA of Italy, plans to announce alliances next month with several electronic publishers in Europe to tap the fast-growing European CD-ROM market, an Olivetti official said over the weekend.

"It is difficult to come up with a coherent approach" to the market without local partners, said Grant Perry, vice president for new media initiatives at Olivetti Telemedia. He refused to provide names of the partners.

Olivetti estimated that the CD-ROM market would grow 20 to 25 percent a year in Europe.

IMF to Advise on Ukrainian Debt

KIEV (Reuters) — Michel Camdessus, the managing director of the International Monetary Fund, said Saturday that the Fund would mediate in talks on Ukraine's oil and gas debt to Russia.

Mr. Camdessus, who met both Russian President Boris N.

Yeltsin and Ukraine's Leonid Kuchma on Friday, said the leaders had "confirmed the necessity to resolve this question with the aid of the IMF."

Ukraine has been in talks with Russia about restructuring a \$2.5 billion debt, mainly due to energy imports.

Punjab National Bank Offers Stake

NEW DELHI (Reuters) — India's state-run Punjab National Bank, the country's third largest, will launch a partial privatization by selling a 25 percent stake to the public, its chairman said Sunday.

"I intend to disinvest around 25 percent of the capital," Rashid Jilani said. "The premium will depend on the market."

Punjab National would be the third state-owned bank to partially privatize under India's market-oriented economic reform program launched in 1991. The State Bank of India and the Oriental Bank of Commerce have done so already.

For the Record

Compaq Computer Corp. plans to double its share of China's personal computer market within the next two to three years, the official China Daily reported.

(Bloomberg)

SHORT COVER

Motorola Plans to Sell Motherboards

HANNOVER, Germany (Bloomberg) — Motorola Inc., looking to challenge Intel Corp.'s dominance in the market for personal-computer microchips, said it would start selling pre-assembled circuit boards next month featuring its PowerPC chip.

Motorola has signed agreements to sell the so-called motherboards to several PC makers worldwide, Karl Stoltze, marketing director of Motorola's computer group, said at the CeBIT information technology fair. He did not cite specific companies.

Motorola jointly developed the PowerPC family of chips with International Business Machines Corp. and Apple Computer Inc. It presents PowerPC as an alternative to Intel's X86 microprocessors. Intel's chips form the brains of more than 80 percent of the world's PCs.

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(Bloomberg)

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NASDAQ NATIONAL MARKET

Consolidated trading for week ended Friday, March 10.

Stocks	Div	Yld	Sales	100s	High	Low	Chg	Clos	Chg	Stocks	Div	Yld	Sales	100s	High	Low	Chg	Clos	Chg	Stocks	Div	Yld	Sales	100s	High	Low	Chg	Clos	Chg	Stocks	Div	Yld	Sales	100s	High	Low	Chg	Clos	Chg			
Applus			24429	100	147	145	-1	146	-1	Aspera			30	1	44	147	137	135	137	-1	Aspera			318	37	260	257	256	256	256	-1	Aspera			13	1	120	215	210	209	210	-1
ASR Int'l			1221	100	137	135	-1	137	-1	Aspera Int'l			38	1	10	137	135	134	135	-1	Aspera Int'l			2029	32	650	645	642	642	642	-1	Aspera Int'l			125	1	120	215	210	209	210	-1
ASX Corp			38	100	137	135	-1	137	-1	Aspera Int'l			1.08	1	205	242	237	236	236	-1	Aspera Int'l			1854	9	196	195	194	194	194	-1	Aspera Int'l			1854	9	196	195	194	194	-1	
ASX Corp			38	100	137	135	-1	137	-1	Aspera Int'l			1.08	1	205	242	237	236	236	-1	Aspera Int'l			1854	9	196	195	194	194	-1	Aspera Int'l			1854	9	196	195	194	194	-1		
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ASX Corp			38	100	137	135	-1	137	-1	Aspera Int'l			1.08	1	205	242	237	236	236	-1	Aspera Int'l			1854	9	196	195	194	194	-1	Aspera Int'l			1854	9	196	195	194	194	-1		
ASX Corp			38	100	137	135	-1	137	-1	Aspera Int'l			1.08	1	205	242	237	236	236	-1	Aspera Int'l			1854	9	196	195	194	194	-1	Aspera Int'l			1854	9	196	195	194	194	-1		
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doing business with china



Western enterprise meets Chinese consumers - at a Beijing trade fair.

REFORM DILEMMA: MORE EFFICIENCY MEANS FEWER PEOPLE EMPLOYED

Allowing loss-making companies to go bankrupt can have far-reaching effects.

After a year of phenomenal growth, China's capital, Beijing, now still has only 13 percent the number of cars that Los Angeles has, but Beijing has the same traffic jams as other cities of the world.

China's phenomenal economic growth has produced another sort of traffic jam, and this has slowed essential reforms to the state sector. The economic reforms are torn between two basic but conflicting needs: the first, to stop the influx of foreign funds and imports, which are forcing the money supply and inflation rate up; the second, to increase the use of foreign technology and funds in order to salvage sagging state enterprises and provide a technology boost.

Add to this a mixture of vested interests, including banks with outstanding loans and tens of millions of potentially unemployed workers, and you have an economic traffic jam of national proportions.

The government has indicated its desire to carry through painful reforms. In the past year, new laws on advertising, banking, foreign exchange and taxes have been pushed through, some despite powerful opposition. But the most difficult still remain, put off from last year because of their sensitivity.

Funding social security
Probably the thorniest issue is a revamping of the aging, lumbering state enterprise system. If China moves quickly to allow the bankruptcy of loss-making companies, it will throw as many as tens of millions of workers out of work, with the social security system based on the United States model not due to be completely funded until early next century. If the system is not changed quickly, the economy will break along under the strain of 20 percent inflation.

"China cannot stomach high inflation but, at the same time, political stability is threatened by the measures which must be taken to control it," says Jim Walker, chief economist at Crédit Lyonnais Securities, in his latest report. "Yet there are signs that the government is putting in place the mechanisms to cool growth and accept higher unemployment in the short term."

Until now, the government has relied on its fast-paced growth to sustain jobs, but with the need to cool inflation and economic growth, the critical unemployment issue has come to the fore. Urban unemployed, including those with jobs but nothing to do, already account for 16.7 percent of the total work force of more than 300

million, official figures show, while the rural unemployed number a staggering 37 percent of the nation's approximately 900 million.

If that scenario is not scary enough, government figures show that each bankrupt company can bring down eight healthy ones when it goes, either because of massive accounts owed by the pauper company or because the healthy company sells it most of its wares.

But the largest obstacle is the local (or national-level) bank, which has been forced for years to prop up doubtful companies with "loans" that are never paid back. "The authorities have to pick and choose very carefully where and when to allow a company to go bankrupt," said a Beijing-based Chinese economist. "First they must untangle the web connecting the company to others and to the banking system."

Steel expansion
Some sections are doing better than others. In steel, for instance, imports to China from the Korean company, Pohang Iron and Steel, the world's second largest steel maker, grew in 1993 to 1 million tons, in spite of a world downturn. "We are optimistic because the China market is booming," says Tae Hyun Jeong, deputy general manager of strategic development for Pohang. He predicted a strong 1995.

The textile industry, which comprises 16 percent of the national product and 30 percent of exports, is a textbook study of an industry in need of reform. With 15 million workers in 20,000 companies, China is the largest maker of silk products and the number-two producer of wool products. But like the rest of industry, many companies are in the red, and the state is looking for foreign firms to infuse cash and upgrade technology.

"We need a tremendous amount to upgrade technology in our chemical fiber and raw materials sector, and we want to open this up to foreign financing," says Wu Wenying, chairwoman of the China National Textile Council.

Partly due to Mrs. Wu's lead, the technologically upgraded textile industry is one of the early success stories, as exports for 1994 surged 30 percent over 1993, and 1993 losses of \$120 million were transformed into profits of \$190 million last year.

Officials believe they are on the right track. Official figures say 34 percent of all state-run enterprises were in the red last year, down from 50 percent at the beginning of the year. The situation could look a lot better toward the end of 1995, the government says.

N.D.

AGENDA 21 ACTS TO CLEAN CHINA'S ENVIRONMENT

Problem receives \$1.7 billion in World Bank loans.

On a typical day in any major Chinese city, foreign tourists will marvel at ancient treasures and palaces, gape in surprise at the crowds and admire the industriousness of a nation on its feet to modernize the

country. Sadly, they are also likely to be left with an uglier impression: China's environment is probably the dirtiest they have ever experienced. Chinese cities now comprise the five most polluted in the world in terms of particulate emissions.

The world's largest coal producer and energy user, China has 3.2 trillion tons of coal reserves

that it must use to fire its economic reforms. There is no immediate solution, and even the long term ones will take hundreds of billions of dollars. Fortunately, a strong movement has begun to raise the money and address the problems, with international "clean" production technology and expertise - and domestic propaganda - at the center of the thrust.

One of the strongest backers is the World Bank, which has lent \$1.7 billion to 15 projects in China so far. "Environmental projects are the fastest-growing part of our portfolio in China, and the World Bank's lending for environment-

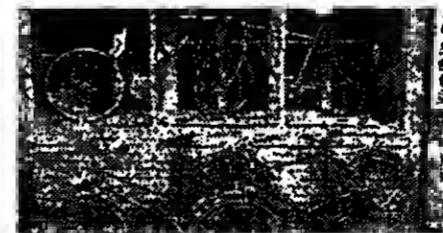
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Manufacturing - Page 23

A SOBER LOOK AT RESPONSIBILITIES OF GROWTH

Rapid expansion demands control of inflation.

With strong 11 percent growth in 1994, China looks forward to a 1995 of speedy economic expansion, but it is nevertheless sober about the formidable socioeconomic problems it faces.

The past year witnessed a government managing a difficult transition with victory after victory, chalking up trade surpluses and record bank savings and foreign exchange reserves while repairing strained trade relations with the United States.

It also saw record-breaking urban inflation rates - as high as 27 percent at one point - that if continued could send the economy into a tailspin. On the political side, the leadership prepared for the passing of senior leader Deng Xiaoping by denying rumors of his death, yet acknowledging that his health is declining. Even in this interim period, during the twilight of an outstanding political leader's career, economic statistics prove that China is economically stable.

"China is on a more consistent course than any other country in the last 15 years," says Howard Pierce, president of engineering giant ABB's China division.

Key indicators

After a worrying period of high inflation, the urban rate has subsided to just over 20 percent, and leaders hope to lower it to 15 percent by the end of the year. Meanwhile, individual bank deposits are up to a record high of \$235 billion, and fixed asset investment growth is down (both key indicators that the economy is not overheating).

While explosive growth and waves of foreign investors have brought China riches that would have been thought impossible 15 years ago when reforms began, they have also brought heightened expectations among China's own people and the foreign community.

China has undoubtedly become a leading member of the world of nations - it is a rising economic and political powerhouse, with all the headaches and responsibilities that go with the position.

In 1995, China, like any nation, must deal with a difficult domestic agenda that includes painful restructuring of state enterprises, huge potential layoffs and the reduction of inflation.

Long negotiations

At the same time, Beijing must persist with difficult negotiations over its nine-year application to join GATT (or the World Trade Organization), while negotiating a new copyright protection accord with the United States and deflecting criticism over the \$29 billion trade surplus with Washington. But most business executives dismiss the problems as similar to those of any large country experiencing growing pains.

"Certainly there are problems, and sometimes reforms cannot go as quickly as the Chinese would like," says Francis Leung of Peregrine Investment Holdings.

Despite trade and human rights rifts with the United States, international big business has continued to invest heavily, treating China as a communist nation in name only, while their customers from Peoria to Prague and Penang enjoy Chinese-made products at discount prices.

Sino-U.S. arguments over protection of intellectual property ended happily in February, with Beijing agreeing to turn up the heat on pirates copying up to \$1 billion worth of compact discs, videos and software.

Hefty purchases
With the new Sino-U.S. copyright agreement in hand, software makers and the U.S. film industry can look forward to having a banner year in 1995 as cooperation between the two countries rolls ahead. Other strong bets for foreign interests in 1995 will be the agriculture, aviation, energy, transportation and telecoms industries as China loosens some restrictions on investment and makes hefty new purchases of items such as airliners and wheat.

Foreign representatives are applauding the accord with the United States, saying it shows China wanted to beef up its legal system quickly. They predict more of the same in the future. "China wants to open up its economy further and would like to deal with the major countries of the world," Mr. Leung says.

Mr. Pierce of ABB agrees. "I see the pendulum starting to swing away from liberalization, not politically but economically, so that the government shifts its energies to things like the stricter regulation of hard currency," he says.

Indeed, despite the government predictions of a further slowing of growth to 9 percent this year, it is the burgeoning supply of currency, both foreign and local, that economists and business executives say will be the country's largest 1995 hurdle.

Foreign reserve giant

A combination of impressive personal savings and foreign investment that jumped by one-third in 1993 has glutted Chinese banks, helping transform the country into a foreign exchange reserve giant but tempting central bankers to print money to buy dollars.

"China is on a rapid expansion program, and the biggest change since this time last year is the realization that inflation is not yet controlled and that they have to work harder," says Mr. Pierce.

High spending on fixed assets (although not quite as high as last year) helped the construction industry, despite gloomy predictions following the imposition of a 60 percent real estate capital gains tax.

Other 1994 winners were in the chemicals industry - especially for cotton-substitute chemical fibers after China's cotton harvest was hit by boll worms - and luxury goods like automobiles, boosted by rising disposable incomes.

Nick Driver

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doing business with  chinaSTOCK MARKET PROBLEMS
HELP BONDS TO PROSPER

Exchange authorities plan for a more secure regulatory and legal framework

The biggest news for China's financial markets in 1994 was not the precipitous decline in stock values and trading volumes, but the bond market's strong move to take their place. Last month, futures-driven trading in "T-notes" on the Shanghai Stock Exchange reached a record turnover of

disappointed by the poor performance of most stocks have deserted to other instruments in droves. In 1993, debt instruments accounted for only 3 percent of the stock exchange's trading volume, with a turnover of \$873 million. One year later, turnover had reached a record \$232 billion, leaving stock volumes far behind.

Even before last month's debacle, most foreign in-

grine Investment Holdings Ltd., a major China direct investor. "I would advise most investors to invest in H-shares or other China-related instruments," he said, outlining the success Peregrine had in helping American Standard set up a \$83 million holding company for China.

Others are even more negative. "Investors are finally confronted with the harsh realities and pains of the economic reforms ... as the simple China concept (stock) has lost its luster, investors have become skeptical and demanding," the respected China Monitor of Crédit Lyonnais Securities said last month.

Pension fund ban
The bond enthusiasm began in October 1993, when the Shanghai Stock Exchange decided to introduce futures trading in T-notes, drastically cut trading fees and allowed margin trading in notes and repurchase agreements. Inflation-proof bonds were offered to service debts. Interest rate subsidies tempted money into T-notes and away from high interest-bearing deposit accounts.

These subsidies quickly rose from 4.28 percent in August to 8.79 percent in December and currently stand at 10.38 percent, offering inflation-beating earnings on investments and further draining funds from the increasingly volatile stock markets, whose indices had slid drastically to reach an all-time low on July 29.

Inflation rates
But many funds also took a turn for the worse last year, hit by worries about China's high inflation rates. "A lot of China funds that began in 1993 have done quite badly," says Francis Leung, managing director of Peregrine and domestic investors.

vestors had rightly decided that all local markets are too risky (it is not yet legal for foreigners to invest in Chinese treasury notes), and have placed their China money in investment funds with a partial China exposure, or have bought shares of Chinese companies listed on the Hong Kong exchange.

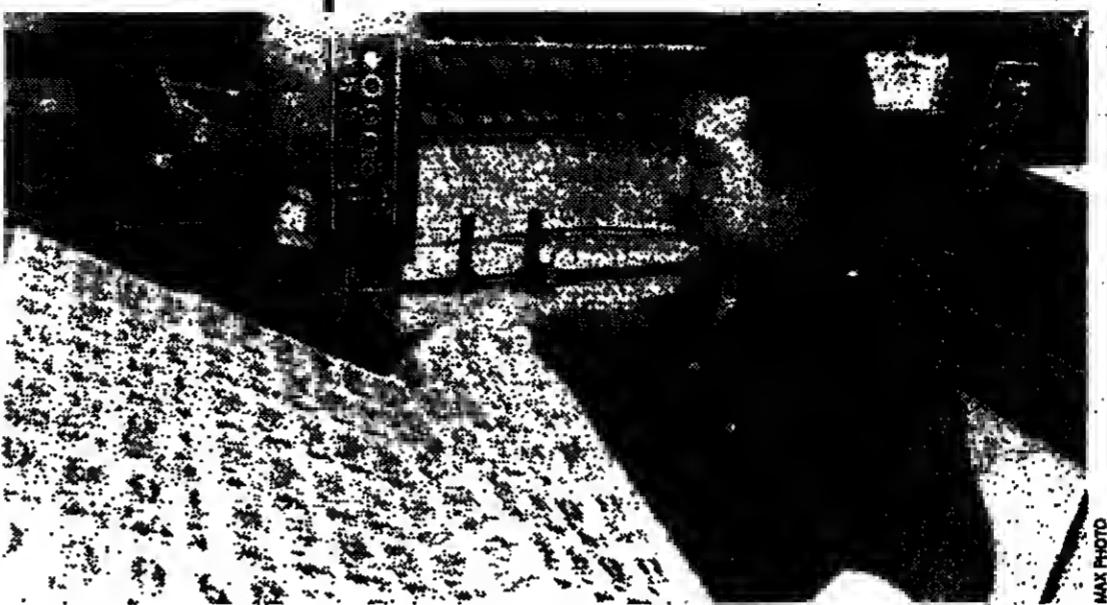
Stock market investor confidence was temporarily boosted at mid-year with announcements that no further

A-shares (for Chinese only) would be issued for the remainder of 1994, and that foreign joint venture funds could be allowed to invest in the A-share market. But enthusiasm dropped again after the banning of pension and unemployment insurance fund investment in the market, and the outlawing of same day sales.

All along the speculative



Investors and traders crowd into the Shanghai Stock Exchange, hoping to see a rise in prices. New money rolls off the presses (below), one way to solve some economic problems.



The stock prices on a wall newspaper merit close attention.

\$64.1 billion, dwarfing the exchange's stock turnover of \$14 million on the same day and triggering an investigation into rigging.

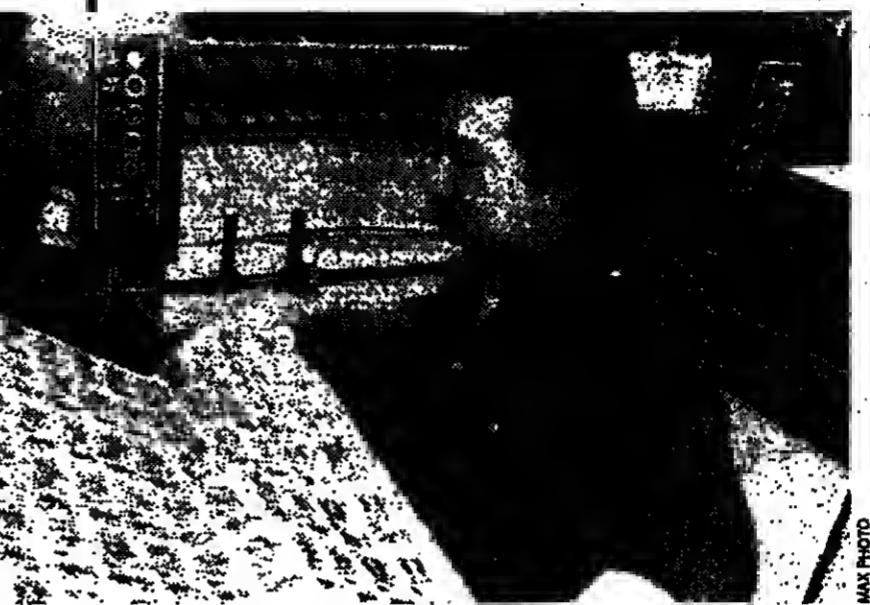
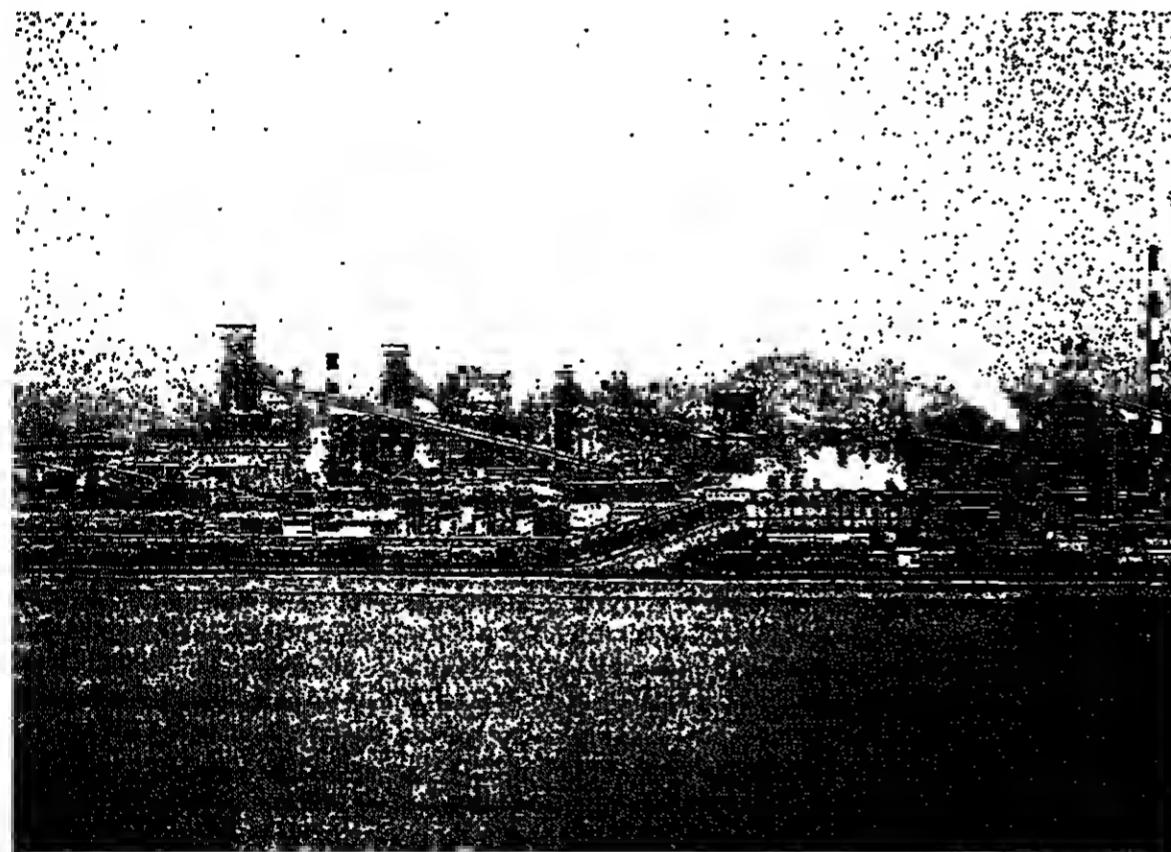
The investigation found one company guilty of fixing a trade. Limits have been placed on all bond trading, ensuring the record volume is never reached again. But investors are also not likely to return to stocks, seeing debt instruments as the most stable, with the highest return.

"This year has seen the tide turn towards bonds, and they are unlikely to relinquish their position," says one stock analyst. Both foreign and domestic investors,

had rightly decided that all local markets are too risky (it is not yet legal for foreigners to invest in Chinese treasury notes), and have placed their China money in investment funds with a partial China exposure, or have bought shares of Chinese companies listed on the Hong Kong exchange.

Inflation rates
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All along the speculative

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The term *guanxi*, or connections, has been thrown about since the opening of China to investors in 1978. At that time, a go-between was essential to a project, and often using the front door brought it slamming in your face.

Now China has moved toward a market economy, and regular channels work much more efficiently. But there is still a niche for those with connections, and it is always easier finding out in-

formation through your friends than through the local bureaucrats.

A couple of viewpoints on *guanxi*-building:

"Our goal is to be the financial bridge between China and the rest of the world," says Francis Leung of Peregrine Investment Holdings.

But he says the concept of *guanxi* has become overblown by consultants who describe themselves as can-do *guanxi*-builders to top

leaders. "I probably spend 50 percent of my time in China, promoting our projects and meeting people," adds Mr. Leung. "We need to make connections and network, just like anybody else, but we do not make *guanxi* with high government leaders' children, for instance, because that is only of short-term use. We plan on being in China a long time."

Howard Pierce, of ABB

China, says the concept of *guanxi* exists all over the world, but there are unspoken rules. "China is the same as any other country — you have to do business with your customers, and you want to make sure you are in constant communication with them. Likewise, a contract in China is like that in any other country — something to fall back on when your personal relationship has broken down."

RICHARD DODSON

GUANXI — THAT'S THE CHINESE WORD FOR NETWORKING

Investing in China is in fashion, but not all styles of investment are welcome.

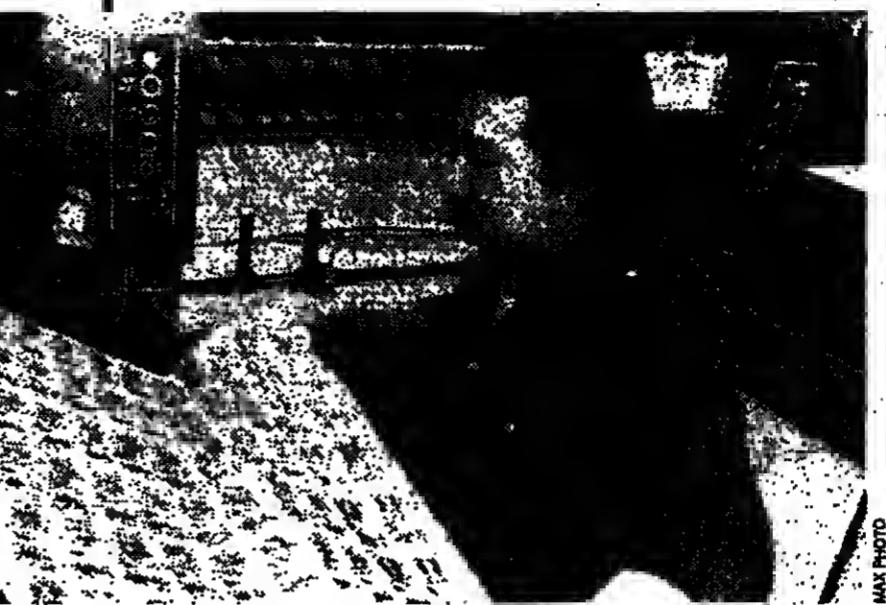
"Nor do we know whom the culprit for inflation is — overheated foreign investment or burgeoning trade surpluses. If it is trade, then we can restrict imports. But if we guess wrong, the economy will be sent down."

Up to \$50 billion in foreign currency raced in last year, economists estimate, and the trade surplus swung from a

stock exchange in order to raise capital, 1995 will prove to be a difficult year for investors.

"But many companies, including ourselves," says Francis Leung, president of Peregrine Investment Holdings, "are still positive about the long-term prospects."

N.D.



MAXPHOTO

that already exists for T-notes has been written into this year's China's Securities Law, while regulations are being drawn up to allow foreign funds into the A-share market.

Profitable strategy
China's hard currency-denominated B-share market, like the Cbns issues in Hong Kong, has lost 30 percent in the last year, followed closely by some poor-performing closed-end investment funds.

Direct investments in under-performing reform-minded enterprises remains the most profitable strategy for international financiers, despite the short-term lack of effective methods for obtaining hard currency returns.

For all of 1994's bad news, international underwriters in 1995 are still trying to bring Chinese companies overseas, where stock markets with stricter disclosure requirements and better legal frameworks await.

Meanwhile, China will continue to encourage some listings of H and B shares while second tier exchanges, such as the proposed Tianjin exchange, will try to woo new companies to market.

N.D.

Regulatory Commission, have both recently vented official frustration with the wayward development of the domestic stock market. Mr. Zhu emphasized the immaturity of the markets while Mr. Liu called for a slowdown in their development to allow a more secure regulatory and legal framework to bloom, especially in standardizing listed compa-

ny activities. While Mr. Liu denied any forthcoming merger of the A and B share (foreigner's only) markets, central authorities have clearly made it their intention gradually to open up the whole domestic market to native and overseas investors alike.

A provision for the establishment of an over-the-counter market, a function



RICHARD DODSON

2/21/95

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*Working
together,
we can do
almost
anything.*

BOEING

doing business with **china****AUTOMOBILE INDUSTRY MOVES AHEAD - OVER A BUMPY ROAD***The target for domestic factories is to produce 3 million vehicles a year by 2000.*

The Chinese automobile industry, once the poor cousin of Chinese heavy industries, is accelerating at breakneck speed with 1994 sales estimated at 1.4 million vehicles. Economic reform has fueled a penchant among private owners and government officials alike to travel by road, and Cadillacs, Audis and Jaguars are replacing the Soviet-made Zils of yesteryear.

"In the '80s, everyone in China wanted to buy bicycles, televisions, washing machines," says Zhao Dadong, chief representative in Beijing of U.S.-based Automotive Resources Asia, an auto consulting company. "In the '90s everyone wants to buy a car."

To keep its domestic industry on course to meet this pent-up demand, China is targeting an annual output of 3 million vehicles by the year 2000. At the same time,

the government is trying to prevent the present decentralized production from spreading. In the last three years, small companies producing low-quality cars have sprung up all over China, trying to tap into potentially vast earnings.

To slow the growth, last year the government decreed that no new foreign auto ventures would be allowed until 1996. It also stipulated that all existing domestic ventures would be concentrated in three to four areas of the country, and encouraged larger manufacturers to buy their smaller counterparts. China's auto giant, First Automobile Group, responded quickly by buying Jinbei Automotive, a van maker whose joint venture partner is General Motors.

Balancing act
Foreign manufacturers trying to expand their presence have a difficult balancing act — they must try to maintain quality while increasing pro-

duction. "Putting in the capacity to achieve volume is one thing," says Lauren Giglio, chief representative of Chrysler International China. "Putting in the capacity to achieve high-quality volume is something quite different." Chrysler owns a stake in Beijing Jeep Factory, a joint venture making the popular Cherokee model.

Like all other foreign ventures, Chrysler has been limited to 49 percent of a venture, a limit that is not likely to change soon.

Another headache is the high start-up costs. Chinese auto czars demand 40 percent local content in all their foreign ventures, and major components must be made locally. This rules out importing complete knock-down kits to be assembled in China. Manufacturers are concerned that this initial threshold forces costs to soar, especially for vehicles they are not sure will attract Chinese customers.

The Chinese themselves are only too aware that the motor industry is weak in component development.

citing this as a reason to ban new foreign auto ventures until 1996. They believe that foreign help will improve output, technical expertise and quality in the components industry, and they have encouraged prospective carmakers like Honda to move into auto parts manufacturing.

The situation with the han is now in a state of flux, with the central government now looking to extend the ban until 1998 and local governments, who stand to gain most from a vehicle plant in their locality, lobbying to ensure that it does not last beyond Jan. 1, 1996.

Strong earnings
Chrysler's Beijing Jeep is the largest equity investment in China, and after some difficulties in the 1980s, it has produced strong earnings. Shanghai Volkswagen and the Daihatsu-licensed Tian-

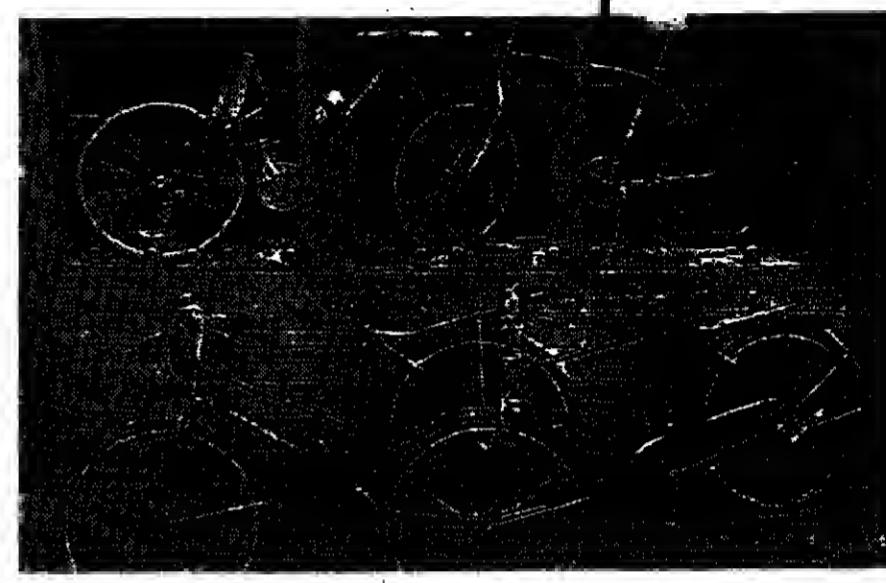
jin Mini Vehicle Plant also chalked up high growth last year, despite the fact that growth of profits was down in nearly all of the country's 223 major auto plants.

Despite the restrictions, Chrysler, like all other automakers, sees the automobile industry as one of the country's biggest industrial growth areas.

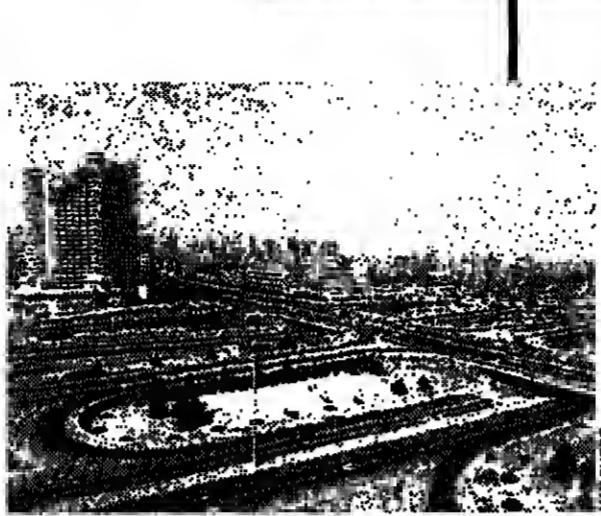
"The government has obviously decided to put China

RICHARD DODSON

A gleaming new German car waits in a Beijing showroom (above); the Third Ring Road is one of the highways being constructed to accommodate it (left); and Beijing bicycles will eventually replace it (below).



RICHARD DODSON



MAX PHOTOS

on four wheels instead of two," says one foreign producer.

Chrysler has plans on the drawing board to expand Beijing by adding passenger cars and a different edition of the Cherokee Jeep, but some hurdles remain. "The Chinese want to speed up all developments and, among other things, the infrastructure just is not there to cope with this," says Julie Lee

IN BEIJING, 8,000 CARS VERSUS 8 MILLION CYCLES RESULTS IN CHAOS

Standing on a platform in the middle of the crossroads, the traffic warden smokes a cigarette and chats with a friend on a walkie-talkie. Those few minutes of inattention cause a major traffic jam. Cars and minivans are packed bumper to bumper. Where there is a little space, cyclists and pedestrians push their way through. The chaos lasts half an hour.

There is little discipline on the roads here. Drivers will ignore traffic lights,

overtake on the inside and drive up highways the wrong way in order to get somewhere faster," says Mr. Zhao, a taxi driver in Beijing. "I need to concentrate fully every second of the day to dodge bad drivers and cyclists, I must say that nowadays my job is probably the most stressful in Beijing."

The number of cars on the road in Beijing has risen dramatically over the past few years and now totals around 800,000. Bicycles, the traditional mode

of transport, number 8 million in the capital and are involved in most traffic accidents in the city.

Infrastructural development has not kept pace with the changing face of traffic; there are few parking spaces and fuel stations, for example.

Beijing plans to build new roads this year in an attempt to create a system that will cater to drivers as well as cyclists.

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Hoechst High Chem**FOREIGN TELECOM COMPANIES RUSH TO HELP SPEND \$40 BILLION**

'Leapfrogging' to an advanced digital communications system demands huge investment.

People bundled in thick coats cluster around a Beijing street-side booth. It is cold outside, and they are in a hurry to make their calls at one of the city's few public phones before they head home. Meanwhile, a well-dressed couple hustles by, the man intently speaking into his Nokia cellular phone. His Motorola beeper only alerts him to his calls, but can also tell him the temperature and give him a rundown of the day's important news.

Scenes like this can be seen all over this vast country as it rushes to develop. The potential market for such products is luring huge foreign investments to China. Motorola and Nokia are just two of the telecom companies doing remarkable business with their high-tech products here — AT&T, Siemens, Northern Telecom, NEC and France's Alcatel all have substantial investments and are planning more. Indeed, many are hailing China as the most significant telecom market in the world.

Why all the excitement? China combines the fastest-growing economy in the world with an overburdened and underdeveloped infrastructure. A swelling middle class with money to spend wants everything from new cars to telephones — and needs roads and telecom systems to run them on. China has recognized the enormous shortfall between supply and burgeoning demand. Today only 2.5 people out of 100 have their own phones, but the government hopes to raise that number to 8 people per 100 by the end of the century.

Serious market
China is not slapping together an old-fashioned analog phone system; the country is creating one of the most technologically advanced digital communications systems in the world.

"Leapfrogging" is the expression people in the industry use when describing China's planned jump to an advanced telecom system. This will require it to install 100 million digital switching systems by the year 2000 and spend over \$40 billion in the telecom sector. It is no wonder those foreign companies are excited.

AT&T, which recently joined Chinese companies in creating joint ventures in southwestern Chengdu and coastal Qingdao to help satisfy this switching demand, is taking the China

market seriously. It intends to spend more than \$150 million over the next two years and to double its present China work force of 1,000. Projects will range from the establishment of one of its high-tech Bell Labs in either Beijing or Shanghai to the creation of an "information superhighway" — an ultrahigh-speed digital system that can transmit voice, image, data and video services — linking Hong Kong and Guangdong Province.

"China has seen that the advancement of telecommunications is a way to generate economic development," says H.T. Kung, public relations director for AT&T China. This realization is driving China's ambitious plans for its telecom sector and is encouraging reform. "There is a trend across the re-



In China, only 2.5 people out of 100 own phones; the government intends to raise that to 8 per 100 by the end of the century.

for 1994 increase threefold over 1993. Today there are about 10 million pager users and 1.2 million cellular phone owners in the country. People with pagers are expected to number 30 million and cellular phone users 10 million by the turn of the century.

Investment is expected to keep pouring in as foreign companies remain bullish on China's continued growth in telecommunications. Mr. Kung of AT&T explains China's demand: "If people have difficulty in communicating, how can they do business? It's pretty basic."

Dexter T. Roberts

JOHN H. S.

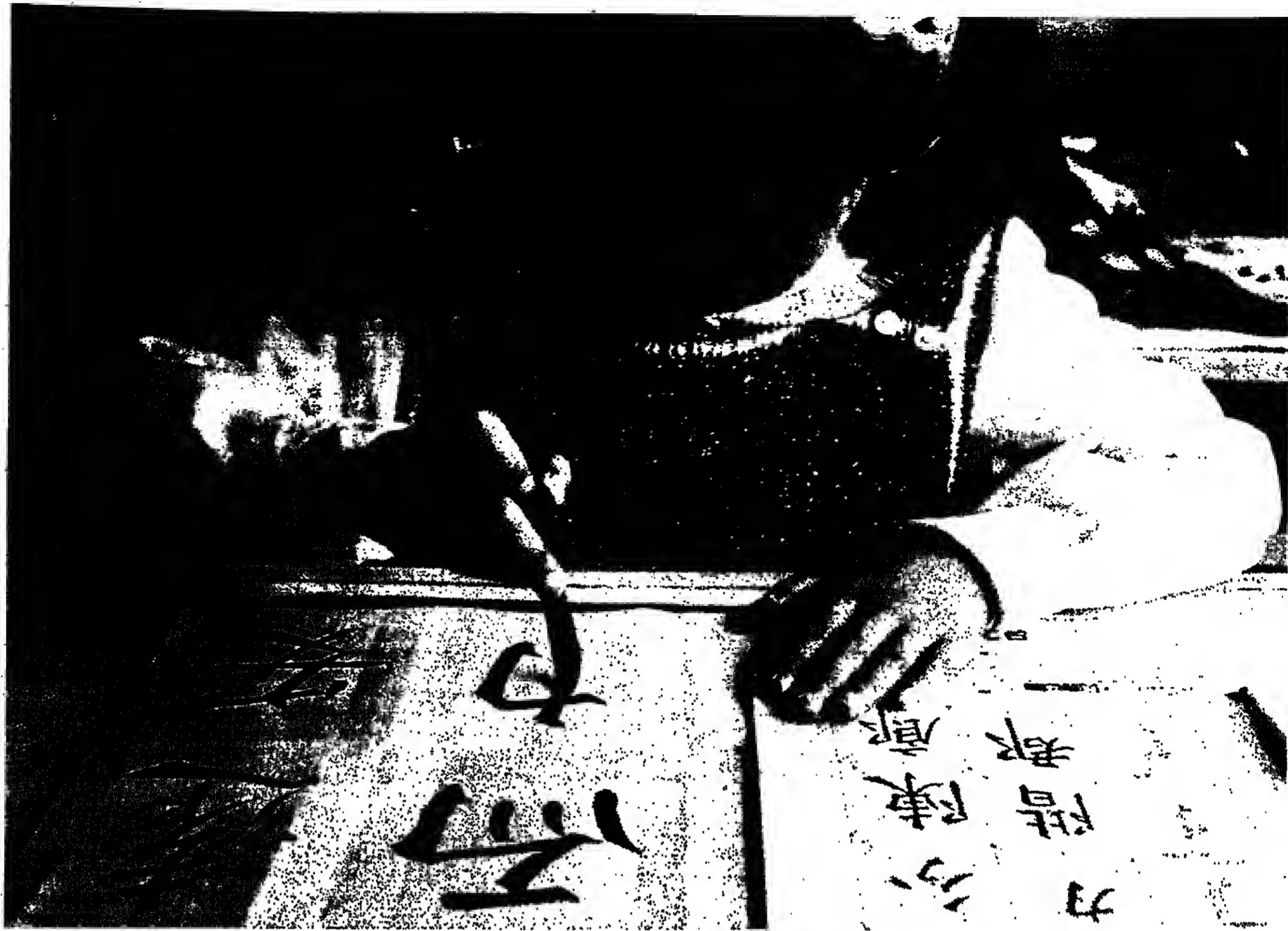


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INTERNATIONAL HERALD TRIBUNE, MONDAY, MARCH 13, 1995

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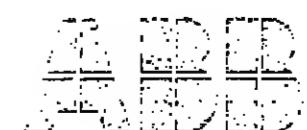
Can you energize a whole generation?

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ABB is an official sponsor of the 1995 China Summit meeting in Beijing April 10-12 1995.

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doing business with **china**

FOREIGN BANKS HOPE TO BE ALLOWED TO TAKE A BIGGER PART IN BUSINESS LIFE

Real competition will come when they are granted the right to conduct local currency business.

A world-renowned Canadian tighe-rope walker has announced that he and three Chinese rivals will soon attempt the first ever high-wire walk over the Yangtze River. In 1995, China's banking system finds itself doing a similar balancing act, trying to push through difficult reforms, hindered by the turbulent winds of double-digit inflation but encouraged by the enticing prize of record amounts of personal savings.

The \$235 billion in individual bank deposits in 1994, an all-time high and 101 times more in local currency terms than the \$2.5 billion saved in 1978, was a welcome sign after 1993's low reserves. But the applause was muted by a rise in bank loans that came despite central government orders to cap them. Loans to industry increased 37 percent in the year ending last October, despite central government restrictions. One unlikely culprit was too much foreign exchange pouring in.

For foreign bankers, the rapidly changing Chinese banking world was like window shopping — they could look and advise, but they could not really participate. One welcome sign now is that the Chinese government looks set to fulfill a long-standing request by allowing more foreign banks to operate branches in Beijing and other cities.

The next and most exciting overseas-oriented modification, allowing foreign banks to conduct local currency business, is farther off, and right now just a pipe dream, according to one foreign banker in Beijing. Without that change, foreigners will never be able to match domestic banks' ability to reach Chinese customers, but even when it does happen it will be fraught with restrictions.

Profit centers

"Allowing foreign banks to handle *renminbi* (local currency) business will contribute to the long-term development and expansion of China's financial market," says Min-Hwa Hu Kupfer, country manager and chief representative of First National Bank of Chicago, the first U.S. bank to open

a representative office in China. And, as Mr. Kupfer and almost all foreign bankers in Beijing can attest, the relaxation should help foreign banks turn their present money-losing operations into profit centers.

While many still complain of the Chinese system's inefficiencies, reforms are taking place all the time, like the addition of thousands of newly trained accountants to update records in Chinese banks and ensure that accounts are kept to Western standards.

"Certainly they are moving in the right direction, but bank staff remain badly trained and not oriented to credit risk," says Francis Leung, managing director of Peregrine Investments Holdings Ltd. Although comprehensive banking reform has not come about as quickly as other market reforms, the Chinese government has started to bring the banking sector more in line with the country's increasingly free market economy.

In 1994 the government split its state-owned banking bureaucracy in half, creating three policy banks for targeted state lending — the State Development Bank, Import and Export Bank and the Agricultural Development Bank, whose seed money comes partly from overseas treasury bill issues.

The transformation will free the People's Bank of China, the national central bank, to concentrate on fiscal and economic policy, and regulate the burgeoning money supply, while leaving the existing five banks to metamorphose into purely commercial entities.

Soft loans

The "big five," consisting of the Bank of China, Construction Bank, Agriculture Bank, Transportation Bank and the Bank of Industry and Commerce, find themselves in principle able to compete freely for the first time since their conception. In practice, while they are free from some government restrictions, the big five banks are still required to make "soft loans" to state-owned industry that more often than not become grants.

Despite the desire of most government leaders to remove "aid" from the banking vocabulary — more than 30 percent of all mainland bank loans are

classed as non-performing — a discontinuation of this role could result in mass employee layoffs, with potential repercussions for social stability.

So-called fast-track reformists hope the introduction of foreign banks will generate a flow of modern management methods, while Ministry of Finance and People's Bank of China technocrats believe the introduction of foreign bank branches will inspire an element of controlled competition, thereby encouraging domestic banks to move forward.

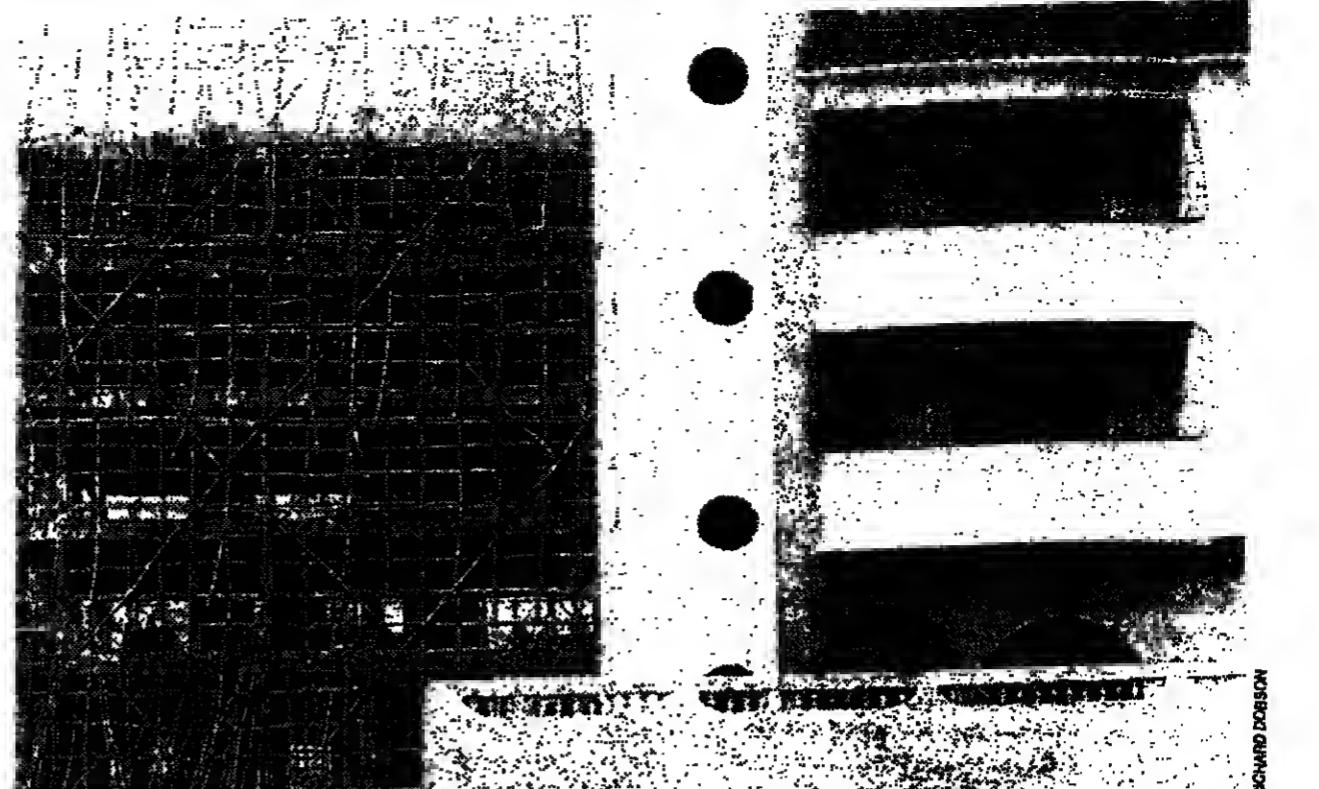
"Go-slow" reformists, on the one hand, know that restricting foreign bank branches to foreign currency essentially eliminates the business potential for these banks. On the other hand, market and regulatory systems are not yet in place to exercise full control over foreign banks if the restrictions were lifted. Both sides realize that once unleashed, profit-driven foreign banks could upset the five fledgling state-owned banks and stunt their growth.

Delicate balance

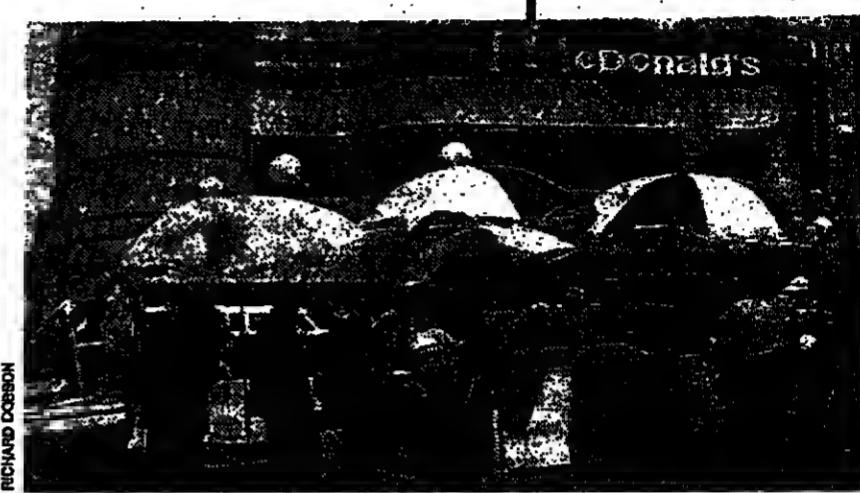
As anyone based in China can attest, the dilemma is proving a difficult one. Foreign bankers find themselves in the same Catch-22 situation as the Chinese government, rooting at once for substantive reforms so that they can start local currency business, while at the same time calling for caution to avoid upsetting a delicate equilibrium.

They applaud the central government's decision in the 1980s to begin allowing foreign bank branches in coastal cities — 13 cities, including Shanghai and Shenzhen in the south, now have fully operating branches.

With China's 9 percent average growth over the last decade, bankers' mouths are watering at the thought of financing some of the growth. Major banks from around the world scramble for office space and jockey for position to open commercial branches in what some day could be the world's most lucrative financial market. Up to now, however, while banks have made some money on letters of credit and making foreign currency loans, the competition and the restrictions have thinned profit margins to almost nothing. J.L.



Condominiums go up in a special economic zone designed to encourage foreign investment, and (right) hamburgers are sold in a Beijing street.



RICHARD DODSON

NEW LAWS DISCOURAGE SPECULATORS BUT COULD HELP REAL INVESTORS

Three years of property market growth have ended with the threat of a glut of commercial and office space.

The honeymoon between China and real estate developers is over. Next, perhaps, will come long-lasting harmony. In the meantime, developers, renters and property buyers alike must wait for the dust to settle in the wake of new laws and uneven growth.

Three years of vigorous investment and robust growth in the China property market ended in 1994, replaced by the threat of a glut of commercial and office space, uncertainty about the property gains tax and doubts over potential risks in property development.

Foreign investors are slowing down their expansion plans. Hong Kong-based New World Development Co., one of the largest and most exposed, has led the slowdown, acting to cut losses this year caused by 1994's government-imposed credit squeeze and diminishing returns on investment opportunities.

New World has invested heavily in real estate and infrastructure projects in China over the past few years, with more than 30 major development projects under way.

"1994 was a bad year for real estate, and it will continue to be slow as investors stay away and government restrictions keep them out," says Francis Leung, managing director of Peregrine Investments Holdings Ltd.

Accurate details
Last month, the central government spoke to investors' concerns about the speculation-busting property gains

tax, saying capital gains will apply only on property sold after January 1, 1994.

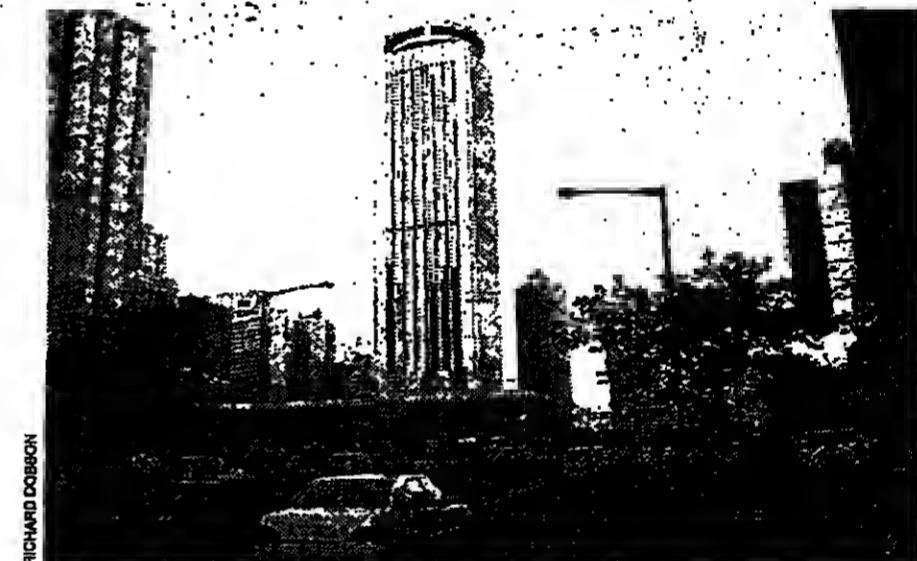
Another positive sign is the Urban Real Estate Man-

up-to-date values for land."

Mr. Evans adds, "The law ties in nicely with the new property gains tax in that both are important steps to

putted luxury development, to be built by Hong Kong tycoon Li Ka-shing.

But in a novel twist, the central government has now



Scraping the sky in Shenzhen, the new International Trading Building.

agement Law, introduced at the beginning of the year to facilitate investment in the property market. The law forces sellers to use open tenders or auctions to sell land-use rights to government land. In the property market of yesteryear, accurate details and conditions of sale were difficult to obtain by either speculators or analysts.

"Sale of land-use rights will necessitate accurate details of sites, site prices and the public announcement of tenders results," says Dyfed Evans, Beijing representative of property consultants Brooke Hillier Parker. "This will lead to greater market transparency and more accurate market analysis — thus

making speculation profitless, leaving more choice in the market for serious investors committed to long-term property development in China."

Double trouble
Many foreign investors, however, doubt that China's legal apparatus is able to guarantee full and fair implementation of the law, and worry they will be hurt by the same forces that hit two highly publicized cases.

In the first dispute, fast food giant McDonald's has agreed to vacate its flagship store in downtown Beijing after finding it had neglected to read the fine print in a contract. McDonald's will make way for an equally dis-

halted construction of the luxury plaza, to be called the Oriental, saying Mr. Li contravened city regulations limiting structures in the downtown area to a height of 30 meters.

Property development sources claim the rift involves more than height, and is in fact a variation on the age-old friction between government regulators and developers.

Property analysts say the lessons from these cases are to use caution and get a strict reading of the laws before jumping into the market, but they add that the new laws should help keep swindlers and speculators out and lower prices.

J.L.

SOME LEGAL CHANGES TO BE NOTED

INDUSTRIAL PROPERTY
Sino-U.S. agreement on the protection of intellectual property rights. Added to existing Chinese laws, this accord will protect U.S. and other foreign manufacturers of software and audio-video products. Losses are now estimated at up to \$1 billion. Nine other laws and regulations widen the scope for foreign enterprises to establish branches.

BANKING AND SERVICES
Banks will soon be allowed to open branches in nine cities, adding to the present 13 cities. Some banks are already using local currency for re-

stricted activities in Shanghai and Guangzhou. Service industries such as banking, insurance, product distribution and accountancy will soon be more open to foreign investment.

JOINT VENTURE ENTERPRISES
Company Law and Company Registration regulations widen the scope for foreign enterprises to establish branches.

INVESTMENT
China is considering a law to protect national industries by limiting foreign stakes in Chinese enterprises to 70 percent, and to supplement existing laws on infrastruc-

ture projects and auto assembly plants, which dictate that a foreign investor may hold no more than 49 percent stake. Holding company minimum investment will soon be raised from \$10 million to \$30 million, while actual capital must be released within one year of contracting. Special economic zones' tax breaks have been for the most part eliminated, to be replaced by deductions and breaks for setting up in certain industries.

CUSTOMS AND IMMIGRATION
Regulations about tax on personal effects mean that all computers, VCRs, TVs and stereos face a tax, regardless of whether they are to be used for office or at home.

ADVERTISING
The Advertising Law governs the establishment of joint ventures in the advertising field, outlawing comparative advertising and tobacco ads. At least \$300,000 must be invested as registered capital.

REAL ESTATE
Urban Real Estate Law governs capital gains tax (now between 30-60 percent) and demands a mandatory public announcement of tenders.

N.D.

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doing business with china

TENSIONS WITH THE U.S. ALSO OFFER OPPORTUNITIES

Behind the copyright row lies the question of China's place in the business world.

The Chinese symbol for "crisis" is a combination of the symbols for "danger" and "opportunity." The recent trade crisis between the United States and China is a perfect example of the definition.

Such squabbles present danger not only to East-West relations, but also to the broad future of international trade. At the same time, trade tensions present an opportunity for China and the United States to set a framework for peace and prosperity into the 21st century.

The recent trade problems go considerably deeper than the surface issue of how China's intellectual property infringements are ripping off profits from Microsoft or Ford or Disney. Indeed, the disputes go to the heart of the big questions for world leaders on the cusp of the Information Age: the respective rights and responsibilities of developed and developing nations; free markets versus protectionism; human rights versus profit-making; democracy and free markets versus political expediency.

The recent trade crisis demonstrated miscalculations by both the United States and China. The United States underestimated China's determination to stifle dissent, limit foreign cultural influences and prop up the current government through economic growth in spite of the risks.

China, meanwhile, overestimated the U.S. desire to gain access to Chinese markets and invest in Chinese

industry. It turns out that the Clinton administration is not willing to ignore an artificially inspired trade deficit, human rights issues or Chinese missile sales to Iran.

Nor is American business willing to turn a blind eye to blatant copyright and technology thefts or other protectionist policies like an overvalued yuan, the dumping of Chinese products on foreign markets and laws against foreign ownership in certain industries such as telecommunications.

Future rival for Japan
While American industry and the American government are certainly concerned about the immediate losses from Chinese pirating of

rising economic powers in Asia will conform to global standards of free and fair trade if China does not? To put it bluntly, the rest of the world cannot afford to have China act as an economic outlaw, or for the United States to enter into an economic cold war with China in much the same way it maintained a political cold war with the Soviet Union for more than 40 years after World War II.

Along with the miscalculations has come mistrust. To the Americans, it has become difficult to trust the Chinese. The Clinton administration last year restored most favored nation trading status for China, trusting in a continued im-

sue between the two countries, China promised to do better. A series of laws was passed to prohibit pirating and counterfeiting, but it was window dressing, according to the Americans; the laws have not been stringently enforced, and U.S. companies continue to lose millions every day on bogus China-made copies of Windows software, "Lion King" videos and Barbra Streisand compact disks.

At the same time, China does not trust the United States. In particular, there is a fear that American industry will exploit China's labor and natural resources, and will end up with management control of new industry, so that Americans rather than Chinese reap the standard-of-living benefits.

Furthermore, China mistrusts the power of American culture and fears that CNN, phone lines, fax machines and modems will lead to a sort of Americanization that undermines traditional Chinese values and Chinese leaders.

Mutual mistrust
Similarly, two years ago, when the United States first made copyright infringement and pirating a key is-

provement in human rights. But Mr. Clinton's policy of "constructive engagement" has backfired, as evidenced by new State Department report saying China's record on human rights has become worse, not better, since it was de-linked from trade issues.

More leisure – and more money – increases demand for entertainment



Foreign influence: Outside a Beijing cinema (top right), the lettering on the posters is Chinese, but the film is Western. In the street (below right), a television crew interviews a housewife about the merits of a soap powder.



RICHARD DODSON

cultural or institutional framework of the United States. Also, the Chinese appear to believe that the United States, both government and industry, should be willing to overlook China's shortcomings in order to encourage democracy and free markets.

Membership requirements
One of the most important steps for China to take would be to become a member of the World Trade Organization, the successor to GATT. Membership in the WTO would drop tariffs on Chinese clothing and shoes to a mere 5 percent from today's 23 percent on exports to Europe and 49 percent on exports to Australia. The World Bank says WTO

membership would boost Chinese exports by one-third. But so far, the Chinese obviously are not sure the WTO, with its lower tariffs and increased exports, would be worth the requirements for membership, including conformity to international standards regarding copyrights, import tariffs,

exchange rates and farm subsidies.

Moreover, they need to be seen as not giving in to the United States.

Unless and until China has a leadership that sees democracy and free-market competition as an opportunity rather than a danger, there is always a danger of a new crisis in trade relations with the United States.

Timothy Harper



Shopping for brand-name sportswear in Beijing.

music, videos, computer programs and even automobiles, there are larger questions. When will China, which now boasts the world's third-largest economy and is set to surpass Japan sometime early in the next century and rival the United States within three decades, be able to take its place at the table of nations? How can the rest of the world expect that Korea, Singapore, the Philippines, Vietnam, Thailand and other

countries will do?

MORE LEISURE – AND MORE MONEY – INCREASES DEMAND FOR ENTERTAINMENT

The emergent middle class is looking for restaurants, nightclubs, sporting events and television choice.

After decades of drab living, when entertainment meant reciting the sayings of Chairman Mao before another early night at home, the Chinese are finally learning to have fun – and they are fast learners. Mao has been replaced by mascara. Streets once deserted at sunset are now teeming with night prowlers seeking new dance clubs, bars or karaoke joints.

In a country where roughly half the population is under 35 and urban incomes are on the rise despite double-digit inflation, the potential for entertainment is endless.

Eager to keep the population happy, the government is encouraging foreign investment in the entertainment sector, with some exceptions where political considerations still take precedence. In the same vein, the government last year decided to shorten the work week for civil servants and the staff of state-owned enterprises, giving them a full weekend off every other week. With more leisure time on their hands, the Chinese are naturally looking for new ways to use it.

More than a decade of reform in China has produced not only exponential growth, but also an emergent middle class and China's equivalent of a "Generation X." One of the first things this new segment of the population wants to do, like the middle class anywhere, is enjoy its leisure time, be it at home with a personal karaoke machine or out at new clubs like the Hard Rock Cafe.

Man-made snow run
Chinese households now spend about one-fifth of their discretionary income on recreational activities, according to some estimates. Choices of where to spend the cash are growing: horse racing, mah-jongg, amusement parks, bowling, dude ranches, military dance clubs, golf courses, video clubs, restaurants ranging from Brazilian to Vietnamese, electronic video games, saunas and massage parlors, classical and rock music concerts, sporting events – and the list goes on and on.

The latest daytime fad in Beijing is sledding on man-made snow. Who cares that the slope, built on the outskirts of the city with money from South Korea, has only a 12 meter vertical drop. It is new, cheap and fun.

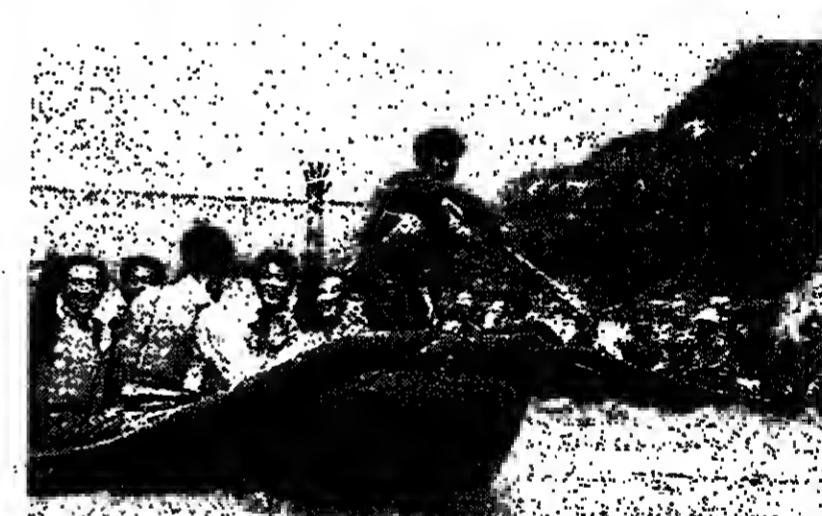
But just as the list of where to play in China stretches on, so does the list of entertainment outlets. China does not yet have a Disney-status amusement

park, state-of-the-art movie houses, live music clubs, coffee houses and comprehensive entertainment guides, to name a few.

For foreign investors, this is exciting

of programming, ranging from MTV to ESPN, and plans are afoot in several cities to experiment with interactive television.

Members of the new urban elite are



A new leisure activity: white-water rafting on the Yellow River.

territory, and many U.S. entertainment companies are exploring avenues for distributing their products. But signing a distribution deal is not the end of the road.

Gap in marketing
"The one glaring example of what's lacking in this industry is professional entertainment marketing," says Kenny Bloom, director of Dragon Entertainment, one of the first Western entertainment companies in China. "Foreign companies are coming and trying to set up distribution deals, but no one is thinking about marketing."

More stress should also be put on local production, adds Mr. Bloom, whose company deals mainly in television, film and music.

"China doesn't have a large market for a foreign repertoire," he says. "What many foreign entertainment companies have not realized is that the future for them in China is not distributing their own catalog but producing their own local repertoire in Mandarin, no matter what the medium."

Traditional forms of entertainment like television and film are branching out to meet the space age. There are now an estimated 30 million cable television viewers, receiving a wide range

of programming, ranging from MTV to ESPN, and plans are afoot in several cities to experiment with interactive television.

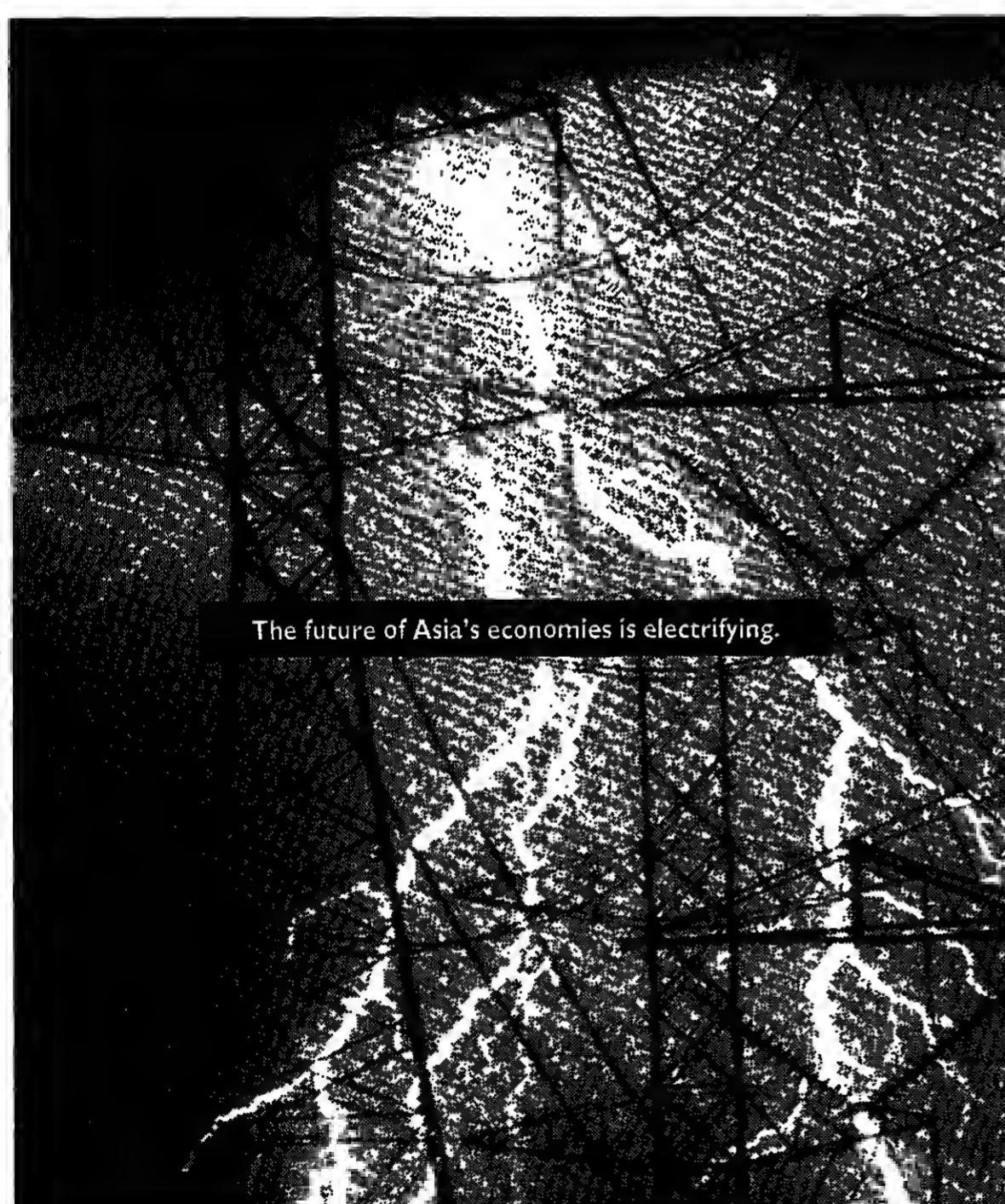
not keeping up with the Wangs if they do not have a videocassette recorder. Beijing recently allowed Warner Bros. to distribute the U.S.-made film "The Fugitive" across China under a box-office sharing deal, the first of its kind since 1949.

Government approval
The entertainment industry is ruled by various government agencies, such as the Ministry of Culture and the Ministry of Radio, Film and Television, and approvals for a project are often required from more than one, leading to complaints of bureaucratic red tape. The government also continues to ban foreign equity investment in such areas as publishing and film and television studios, still considered to be propaganda tools.

Deals can still be worked out, however, as *Elle* magazine has proved with the publication of a mainland edition.

Even once taboo areas of entertainment, such as gambling, are now being discreetly sanctioned. Gambling is still officially banned, but in the case of horse racing, punters are allowed to participate in an "intelligence contest" in which they put money on the horses they think will win.

William Brent



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A WEEKEND OF FUN IN BEIJING

Do you still think of China as a place devoid of entertainment? Consider what a weekend in Beijing might include in the way of fun.

Friday night kicks off with a small jazz concert at a cozy Chinese-style teahouse run by a local bookstore. After sitting for a couple of hours, you will probably

want to visit one of the many cavernous dance clubs, such as NASA, J.J.'s or the Poacher's Inn, for a bit of shaking and grooving.

Replicas of international landmarks like the Eiffel Tower.

Begin Saturday with a trip to the local ski resort, a small bump of a hill opened

last year that has attracted hundreds of thousands already. Or visit World Park, where you can see miniature replicas of international landmarks like the Eiffel Tower.

Have a snack at McDonald's before settling in to watch a movie rented at the video club.

W.B.

If you are up early enough on Sunday, you can catch the weekend antique market in the south of the capital. After a rest in the afternoon, you will be ready for a rock concert. The most recent one featured Roxette from Sweden. Then it's back to work.



Coal, being transported from a depot in Shanghai, is proving insufficient to meet growing Chinese energy needs.

CHINA'S POWER SECTOR PREPARING FOR NEW BURST OF ENERGY

Foreign firms compete for contracts to drill for oil and build power plants.

If the next time you visit China you hear a giant sucking sound, chances are it will be the power sector soaking up new funds, or the oil industry slurping in new imports to feed autos and factories.

One of the world's largest potential energy markets and its fourth-largest power producer, China has set itself almost impossible goals for the year 2000: topping the magic 300 million kilowatt energy barrier that would launch its economic reform program into the 21st century, increasing domestic oil production to erase imports and lessening its reliance on abundant, but polluting, coal.

The most recent promises of investment, a mere drop in the bucket compared with the sums needed, were for \$6 billion, made during a visit by U.S. Secretary of Energy Hazel R. O'Leary last month. Mrs. O'Leary led a delegation of 65 business executives and environmental leaders on a week-long trip to Beijing and Shanghai, signing proposals for \$6 billion, of which 75 percent would be U.S. content.

The largest, a proposed \$1.2 billion coal-fired power plant in southwest Sichuan province, will be jointly run by two U.S. firms and the Sichuan province power authority.

"The business deals, of course, are important; but more important was the establishment of a long-term,



Streetcars in Shanghai, which will soon have a new coal-fired power station.

despite sometimes difficult (but ultimately successful) bilateral trade talks. Meanwhile, companies from around the world vie for new contracts to drill for oil and build new nuclear and hydroelectric plants.

Foreign companies have helped China build nuclear, hydro and coal-fired plants providing a massive 190 million kilowatts so far, making it the fourth-largest provider in the world. In terms of kilowatt hours per capita, however, the country ranks only 80th in the world, and it must increase its capacity by 10 percent a year until the end of the century, adding an estimated 300 million kilowatts before 2000.

"The signing of these

and the involvement of top leaders in approving foreign financing and investment have until now both captivated and befuddled investors.

Top Chinese officials like Premier Li Peng, who headed the power establishment before taking on the top government job, often remind their foreign counterparts of China's enormous development needs.

More earnings
While the past year has been frustrating for foreign power companies, most see a light at the end of the tunnel. Industry sources say Chinese government-imposed earnings limits of 15 percent, far lower than the 16 percent to 30 percent earnings

and that anyone looking for a quick and easy profit is in for a surprise.

ABB China Ltd., a division of the Swiss engineering giant, says it will invest \$500 million in the next three years, doubling or even tripling its percentage of ABB worldwide revenues from the present 2 percent.

"China is on a rapid expansion program and on a more consistent course than any other country in the last 15 years," says Howard Pierce, president of ABB China, adding that power is the key to that expansion.

Besides ABB's \$500 million, to be divided between the company's core engineering for power plants, transportation, industry and transmission, other money is waiting in the wings.

Two investment funds were set up last year primarily to fund large power projects, and while some of the capital has been diverted to other countries, the fund managers say they remain focused on China.

Bank guarantees
Meanwhile, the U.S. Export-Import Bank, a longtime target of U.S. complaints because of its alleged lack of competitive loan guarantees and financing, has also stepped up its commitment to China.

In December, the bank authorized \$1.34 million to finance a Westinghouse Electric coal-fired power station near Shanghai.

Partly at the urging of U.S. power developers, Export-Import Bank chairman Kenneth Brody visited China in October, announcing more guarantees and broader eligibility for soft loans and project financing. He also advocated that the bank place its first-ever overseas-based officer in Beijing.

If the entire \$6 billion contracted during Mrs. O'Leary's trip is invested, it remains a tiny fraction of the staggering sums needed to guarantee that China's reforms move forward smoothly.

In the past 15 years, since it opened its doors to foreign investment, the country has contracted \$14.3 billion for energy-related projects and received an actual \$10.5 billion, a mere 40 percent of the amount needed in the next five years. N.D.

The tall chimneys of the Panzhihua iron and steel complex belch smoke above the city's rooftops, one of the disadvantages of dependence on coal for fuel.

enduring relationship," Mrs. O'Leary said. U.S. interests stand to gain the lion's share of contracts as China builds its industry, while Chinese leaders recognize U.S. help is essential if it is to reach its goals.

10 percent increase needed U.S. power company representatives say the trip came at the right time to get a bigger business interests; a bigger slice of the pie, and they applauded Mrs. O'Leary's ability to deal with the issues.

agreements represents a tremendous amount of coordination and cooperation on the part of many people," said Mrs. O'Leary, adding with a note of caution: "What we really need to be measuring is how many of these deals get to financial closure."

Most of the agreements are not contracts, but mere letters of intent subject to Chinese approval and financing.

Limits on earnings, the country's sheer enormity

doing business with china

MAJOR SHIFT IN MANUFACTURING BASE IS NEEDED FOR FURTHER GROWTH

Value-added sectors in the service and high-tech industries receive attention in plan for the 21st century.

The 21st century should be the era of the Chinese ascension, when the Middle Kingdom, as it calls itself, reassess its role as the center of the world. Projections for the world's most populous nation are that it will take over from the United States in terms of total gross domestic product by the year 2030 if it maintains its present 9 percent average GDP growth.

Such a role demands a world-class manufacturing base, and China's leadership has outlined an ambitious 21st century plan to develop its manufacturing sector. The highlight is a rapid transformation of its low-tech, export-based economy to one that relies on import substitution, especially in the high-value-added sectors such as the service and high-tech industries.

"The focus should shift from traditional, simple manufacturing to basic industries and capital- and technology-intensive industries," said an editorial last month in the government-controlled Economic Daily. "The country should encourage foreign funding for super-high-tech industries and low-profit agricultural development projects with free land, long-term tax cuts or exemptions."

The government is urging a variety of methods to secure foreign financing for projects, including World Bank loans. Limits on foreign ownership in some industries are being lifted. New to the list of funding vehicles are commercial bank loans and international bonds.

VAT causes losses
The only hitch may come if foreign manufacturers feel potential earnings are diminished because of poor accounting. Many have reported losses of millions of dollars due to the Value Added Tax imposed last year.

"We lost only a quarter of a million dollars, which is small enough to allow us to forget about it," says one U.S. executive. "But I know of some large multinationals whose top officers have had to come over here to sort the problem out." He implied that the losses of

some companies have run as high as tens of millions of dollars.

Under the new tax code, companies manufacturing in China are supposed to pay the extra 17 percent VAT tax to the government when the item is sold, regardless of whether some inputs were already taxed, then wait for government accountants to verify and pay out a rebate. For many, the rebate never came. "The problem, I believe, is that they put in a perfectly good law, but did not account for the difficult implementation process," the executive adds.

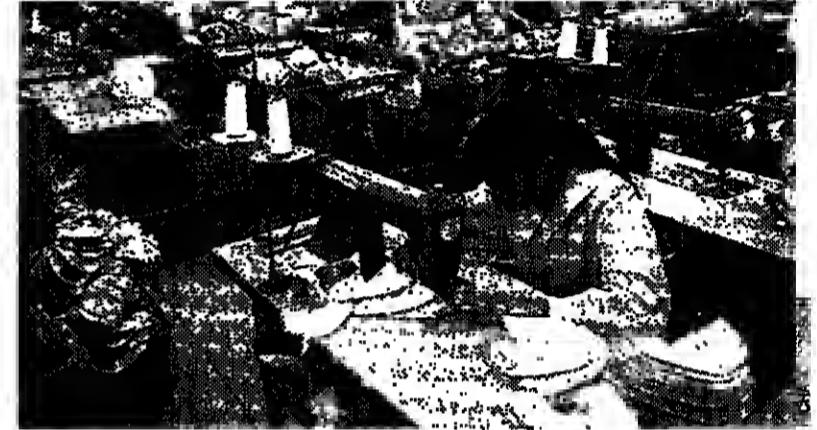
Slow change
Meanwhile, some foreign investors are generally skeptical that China can move away from its core low-tech strategy so quickly, and believe that it is in China's best interest to take things slowly.

If China is determined, it has proven its ability to both obtain and repay financing at the central government level.

after, both to upgrade healthy firms and to turn around the fortunes of up to 30,000 sagging state-run enterprises. "The shortage of capital is the biggest problem for enterprises' technological renovation," says Zhang Guangyi, member of the State Economic and Trade Commission.

Private industry, especially in the high-tech sector, was the fastest-growing last year. Analysis estimate that personal computer sales on the mainland last year totaled about 650,000, 44 percent over the 1993 figure, and surmise that companies in this sector will have no problems obtaining financing.

Of course, with GDP growth above 11 percent last year, almost every manufacturing sector grew, but the nationwide credit squeeze helped trim the machinery sector's growth from 1993's staggering 24.6 percent to a smoother 12 percent. The chemical industry also grew last year, but at only about half the speed of industry as a whole, with



Making shoes for export to Australia, Italy and the United States: Chinese workers in a Hong Kong-owned factory in a special economic zone.

el. The national debt stands at about \$100 billion, but China has never experienced any problems in repaying its national level loans. The real question is whether companies will be able to secure financing in their own right, and is offering foreign majority stakes in domestic enterprises in hopes of getting \$10 billion by 2000.

foreign imports rushing to meet rocketing demand, despite duties as high as 28 percent. Chemical Minister Gu Xilian wants the sector opened up to foreign investment to rectify the situation and is offering foreign majority stakes in domestic enterprises in hopes of getting \$10 billion by 2000.

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doing business with china

INVESTMENT IS NEEDED TO PURCHASE 1,200 AIRCRAFT BY THE YEAR 2010

Aviation leads the way in pulling an aging transport system out of the horse and cart era.

China is famous for its paradoxical systems of transportation. Where else can one find steam engines and jumbo jets meeting the country's transport needs, and horse carts and Mercedes in the same traffic jam? Since Deng Xiaoping's 1978 rise to power, China's economy has grown at an annual rate of 9 percent.

Analysts say auto and truck transport jumped last year, more than offsetting an official drop in transportation volume. Freight volume totalled 2.716 billion tons, down 3.2 percent from the previous year, while passenger

transportation on boats, trains and planes declined 2 percent.

Despite this aggregate drop, more freight and passengers went by air last year. Air freight soared 18.3 percent to 821,000 tons, while 40.27 million people took to the skies, up 19 percent — less than the previous three years' 30 percent growth, but enough to make China's aviation market the fastest growing in the world.

Planned official purchases of a whopping 1,200 aircraft by 2010, worth \$89.7 billion, are certain to further open the doors for investment in the aviation infrastructure market.

When China deregulated

its aviation industry in 1988 and economic reforms gathered pace, aircraft manufacturers like Boeing, Airbus and McDonnell-Douglas rushed to sell their aircraft to the mainland carriers that had sprung up. Boeing, which has since grabbed the lion's share of the business, delivered 14 percent of its production to the mainland in 1993, or 46 planes.

Changing market
Until last year, the bulk of foreign investment was focused around aircraft sales. The market has changed. A purchasing slowdown after a fatal crash last June was implemented by the Civil Aviation Administration of China

the powerful regulatory agency that gives final approval to aircraft orders. The growth of China's turbocharged airline industry had outpaced the ability of the nation's aviation establishment to manage it, analysts found, saying the safe expansion was being compromised by an inadequate infrastructure and a shortage of qualified and experienced ground staff and crew.

CAAC's decision forced aerospace companies to switch tactics and work on strengthening China's aviation infrastructure, which in 1995 should lead to an upturn in aircraft purchases. The overriding philosophy is foundation building. Com-

menting on the growth of China's airlines, Boeing President Ron Woodard said: "It is clear that with the rapid growth of the Chinese carriers, additional support by Boeing would help China's airline industry grow safely and profitably."

Investment environment
According to official Chinese sources, China will need at least 800 airplanes,



Beijing's crowded subways and railway waiting rooms — two of the problems that transport expansion will overcome.

and possibly as many as 1,200, during the next 15 years to meet increasing demand. By the year 2000, China's annual traffic is projected to reach 12 to 15 billion ton-kilometers, up from 3.2-billion in 1991 and 4.3 billion in 1992, thus providing a healthy environment for foreign investment.

Despite last year's purchasing slowdown, Boeing has maintained a long-term approach and expanded its 20-year love affair with the Chinese transport market. In August, Mike Zimmerman was appointed president of Boeing China, Inc., a sign of firm commitment by the Seattle-based aircraft manufacturer.

At the same time, Boeing announced a \$100 million infrastructure investment in China, transferring the construction of tail sections for its 737 jets to plants owned by its Chinese partner, Xian Aircraft Co. Included in the package were two company-owned CAE 737 flight simulators for the Civil Aviation Flying College.

Boeing is also providing assistance in renovating air traffic control systems, as well as accident investigation training and improved safety data collection and analysis.

The task of upgrading China's largely antiquated air traffic control system is complicated by the fact that much of the country's airspace is controlled by the military.

In the future, China is expected to become the world's third-largest aircraft market as it imports an estimated \$45 billion in passenger planes to meet its needs. But the present budget deficit, combined with the burgeoning aviation goods deficit, is causing the Chinese government to look for creative solutions, such as more foreign joint ventures, in order to ensure sufficient growth of its domestic industry.

Alexander Graf

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AGENDA 21 ACTS TO CLEAN CHINA

CONTINUED FROM PAGE 15

tal projects in China is the largest in the world," said the bank's vice-president, Ismail Serageldin, last month.

Framework of projects

In the early 1990s, the government awakened to its severe environmental problems after years of warnings, vowing to spend a larger percentage of its present GDP on pollution. The upshot was Agenda 21, one of the most ambitious cleanup programs ever undertaken.

Deng Nan, daughter of senior leader Deng Xiaoping, is spearheading the Agenda 21, a framework of 500 projects focusing on such badly needed projects as installing scrubbers in dirty factories, making energy plants safer and improving noisy and dirty public transportation.

So far, a handful of foreign companies have signed up to assist the drive, launched last year, but the goal is to absorb almost half of the \$40 billion requested from abroad.

Less ambitious projects, but just as hard to enforce, include a tax on polluting industries proposed by the National Environmental Protection Agency. "Harsher economic punishment would help guarantee adherence to environmental laws and regulations," NEPA chief Xie Zhenhua told an environmental protection conference.

The measures are certainly necessary. Inefficient and aging state-run factories, many of them built by the Russians in the 1950s, belch so much unfiltered smoke

into the air that at times whole cities can disappear from satellite photographs of earth, while 50 percent of the country's rivers are contaminated.

Threat to all Asia

Exacerbating the problem is the use of high-sulphur coal for almost all heating and cooking, leading to the spreading of acid rain to 29 percent of the nation's territory. If the problem is not slowed, the Middle Kingdom will become the world's largest emitter of CO₂ and greenhouse gases sometime during the second decade of the next century, posing hazards across the Asian region.

While environmental experts say the central government has made enormous headway over the last few decades in tree-planting and other anti-erosion techniques, they warn that those measures are not enough. Besides NEPA enforcement and greater government and domestic enterprise commitment, they say, the key is foreign investment.

Eager foreign environmental companies like those specializing in waste treatment plants and equipment and solar power have flocked to China, both to attend conferences and to market their products, but there is still plenty of room.

State estimates foresee a \$20 billion investment for the five-year period ending next year, double the amount during the previous five-year period. Fully 2,000 Chinese companies now produce environmental equipment.

N.D.

TRAVELERS' CHECKS RECEIVE A CHECK

Express China, says the majority of clients are foreigners purchasing checks to travel to China, and not the other way round. The volume of travelers' checks dropped 25 percent to about \$250 million after the government prohibited Chinese companies from retaining some of their foreign exchange. Instead, all foreign exchange had to be converted at the bank to local currency, leading immediately to a sharp downturn in business trips abroad.

But American Express says this affected only a minor portion of their China-related turnover. L.J. Jia, vice president for American

Express China, says the majority of clients are foreigners purchasing checks to travel to China, and not the other way round.

"Travelers' checks are only part of the business and always do fairly well," he says. Because of China's constantly rising incoming tourist numbers over the 14 years since American Express opened its doors here, business has steadily grown. "Over the last few years, there has been an average growth of 30 percent annually," Mr. Jia says. "Furthermore, we retain 50 percent of market share in terms of charge volume."

N.D.

Arizona Suspends Star Stoudamire

The Associated Press

TCUZON, Arizona — Star guard Damon Stoudamire and a teammate were declared ineligible Saturday for Arizona's regular-season finale against Arizona State because of possible NCAA rules violations.

Arizona's athletic director, Jim Livengood, said the university acted after being notified Tuesday of NCAA allegations that Stoudamire — just named Pac-10 player of the year with UCLA's Ed O'Bannon — and Ben Davis, a reserve center, possibly received extra benefits.

Livengood emphasized a belief that neither player had done anything improper, that the university's investigation was continuing and that it would appeal Monday morning to the NCAA's committee on eligibility for both players' immediate restoration of eligibility.

Livengood declined to cite specifics, but said Stoudamire was alleged to have violated a rule that a relative cannot accept improper gifts. Sources said his father might have accepted an airline ticket from a sports agent. Davis, Livengood said, was accused under the rule of preferential treatment.

Stoudamire, a point guard, helped take Arizona to the semifinals of last year's NCAA tournament. The Wildcats were expected to receive a high seeding, possibly a No. 2 or No. 3, in this year's tournament pairings to be announced Sunday.

No. 3 Kentucky Overcomes Arkansas to Win SEC Crown

The Associated Press

Third-ranked Kentucky overcame a 6-point deficit in the final 38 seconds of overtime, with Anthony Epps' two free throws with 19.4 seconds left giving the Wildcats the lead in a 93-91 victory over No. 5 Arkansas in the Southeastern Conference tournament championship game Sunday in Atlanta.

Epps' free throws gave the Wildcats a 94-93 advantage and Tony Delk hit one of two free throws with six-tenths of a second left to end the scoring after Arkansas' Scotty Thurman failed on a 3-point shot with two seconds to play.

It was the eighth victory in a row for the Wildcats, who claimed the SEC's automatic berth in the National Collegiate Athletic Association tournament.

Arkansas (27-6) had bolted to a 19-point lead in the first half, but saw its 10-game winning streak end when Kentucky came back.

No. 13 Villanova 94, No. 6 Connecticut 78: In New York, Kerry Kittles and Jason Lawson each scored 27 points and Villanova withstood one furious rally in the second half before pulling away to win its first Big East tournament championship.

The second-seeded Wildcats (25-7) won their fourth title game appearance and it

seemed like it was going to be an easy one when they took a 67-50 lead with 12:42 to play.

The Huskies (25-4), the first team to ever repeat as Big East regular-season champions with a second straight 16-2 league mark, came up with an eight-minute stretch that brought them within 77-72 with 4:57 left.

That was all they could muster, though, as Connecticut didn't score again until

COLLEGE HIGHLIGHTS

there was 1:38 to play and by then Villanova's lead was back to 15 points.

No. 14 Purdue 73, Michigan 67: Written off as a title contender at the beginning of the year, the Boilermakers finished the regular season with a victory over visiting Michigan to claim its second straight Big Ten championship.

Purdue, which lost Glenn Robinson, last season's college player of the year, to the National Basketball Association and was picked no higher than sixth in most pre-season conference forecasts, earned the Big Ten's automatic spot in the NCAA tournament.

Cuonzo Martin scored 17 points and Matt Waddell added 14 as Purdue (24-6-15-3) won its eighth straight game, its 14th victory in the past 15 games, and finished one game ahead of No. 9 Michigan State.

Michigan (17-13, 11-7), losing its fifth straight game on the road, finished third in the conference.

No. 19 Oklahoma St. 62, Iowa St. 53: Bryant Reeves scored 21 points and Oklahoma State held off Iowa State to capture the Big Eight post-season tournament and an automatic bid to the NCAA tournament.

Reeves, named the tournament's most valuable player, keyed an Oklahoma State rally at the start of the second half as the Cowboys pulled ahead by as many as 15.

The Cyclones rallied and were within 46-44 with 4:44 remaining, but never came closer in losing to the Cowboys for the seventh straight time.

In games played Saturday:

No. 9 UCLA 94, No. 25 Oregon 78: Ed O'Bannon capped his five-year career at Pauley Pavilion with 24 points as the Bruins avenged one of their two losses this season, an 82-72 Oregon victory in UCLA's Pac-10 opener. UCLA's other loss was to California.

The Bruins dominated Oregon in all aspects and led all the way except for a three-point deficit early in the game.

O'Bannon hit a 3-pointer and then left the game with 4:48 remaining, pausing briefly to kiss the center circle before heading to the bench to a standing ovation.

Iowa St. 80, No. 2 Kansas: Hurl Bechum hit two 3-pointers in overtime and finished with 25 points to lead Iowa State's

overtime upset of the Jayhawks in the semifinals of the Big Eight tournament.

Jacque Vaughn, a 33 percent 3-point shooter for Kansas this season, made one with 2.8 seconds left to tie the game at 64 and force the overtime.

No. 3 Kentucky 86, Florida 72: Freshman Antoine Walker scored 11 of his 21 in a seven-minute stretch of the first half as Kentucky built a 19-point lead in the Southeastern Conference tournament semifinals.

Kentucky's seventh straight victory set a final showdown with No. 5 Arkansas.

The Wildcats went on a 30-9 run in the first half, starting with Chris Harrison's 3-point basket for a 16-15 lead with 9:50 remaining. The Gators didn't get closer than 10 after the run.

No. 4 North Carolina 97, No. 10 Maryland 92: Rasheed Wallace delivered two big baskets in OT as the Tar Heels advanced to their 23rd Atlantic Coast Conference title game and first against Wake Forest.

Wallace finished with a career-high 33 points, 23 in the final 25 minutes. Maryland had the final in its sights when Duane Simpkins sank a pair of free throws with 1:17 remaining for an 86-83 lead. Jerry Stackhouse, a 40-percent shooter from 3-point range, sank a 3-pointer with 55 seconds left to end the score.

No. 5 Arkansas 69, No. 20 Alabama 58: The Razorbacks took control during a 21-8

second-half run to reach the SEC championship game.

Thurman led Arkansas with 14 points, five from the free-throw line in the final 50 seconds, and started the decisive run with 15:25 to play, hitting a 3-pointer that put the defending national champions ahead to stay at 38-36.

No. 6 Connecticut 88, No. 24 Georgetown 81: Ray Allen scored 24 points and the top-seeded Huskies advanced to its first Big East tournament championship game since 1990.

Connecticut, the regular-season champion on the last two seasons, took control over the final 2½ minutes, going in from for good at 76-75 on a dunk by Travis Knight. Connecticut then scored the next four points on free throws.

No. 7 Wake Forest 77, No. 11 Virginia 68: Randolph Childress scored 22 of his 30 points in the second half after dislocating a finger on his shooting hand as Wake Forest advanced to the ACC title game for the first time since 1978.

The Demon Deacons won their ninth straight and tied the school record for victories in a season, set in 1984. Virginia, assured of an NCAA tournament bid, shot 23.8 percent in the second half.

No. 9 Michigan St. 97, Wisconsin 72: Shawn Respert scored 31 points in his final home game to lead the Spartans' rout in the last Big Ten game in Jud Heathcote's 19-year career at the school.

No. 13 Villanova 90, Providence 75: Villanova had a 63-52 lead in the second half, but the Friars tied the score with a 13-2 run. Villanova called a timeout and Providence, the defending Big East tournament champion, managed just three more baskets.

No. 18 Arizona St. 103, No. 12 Arizona 98: Mario Bennett scored 34 points and had game-saving blocks in regulation and double overtime to help stop the Wildcats, who played without suddenly ineligible Damon Stoudamire.

Bennett, the Pac-10's all-time leading shot blocker, had 10 rebounds and five blocks. He forced overtime by blocking Ray Owes's jumper at the buzzer in regulation after the Sun Devils' Ron Riley had tied it 81-81 with 8.7 seconds to go on a 3-pointer.

No. 19 Oklahoma State 74, No. 16 Oklahoma 58: Reeves broke out of a slump with 28 points and 12 rebounds while leading the Cowboys into the Big Eight tournament final.

No. 22 Utah 67, Hawaii 54: Keith Van Horn scored 24 points and Utah's defense shut down Hawaii in the second half as the Utes won the Western Athletic Conference tournament and received an automatic bid to the NCAA tournament.

Colegate 68, Navy 63: Colgate won the Patriot League tournament championship Friday night on its home court in Hamilton, New York, qualifying for the NCAA tournament for the first time.

Jordan: Wait Continues

The Associated Press

CHICAGO — There was no Michael Jordan for a second straight day at the Chicago Bulls' pre-game workout. Neither was there an announcement about his future, or an end to speculation that he would return to the National Basketball Association.

"It's a tantalizing thing," the Bulls' coach, Phil Jackson, said Saturday. "You talk about the expectations not growing too great behind all this without something being said one way or the other. I don't think we can expect Michael to make a decision so rapidly after just coming away from baseball this week."

Jordan quit baseball Friday, clearing his way to return to basketball.

His commitment to rejoin the Bulls could include assurances that the Scottie Pippen is also part of the team's future, according to one report.

The Chicago Tribune reported that Jordan would ask the Bulls' owner, Jerry Reinsdorf, to keep Pippen beyond this season should Jordan play next season.

Pippen, the Bulls' best player without Jordan but not their highest paid this season, has been unhappy, especially with the general manager, Jerry Krause. Pippen teamed with Jordan to lead the Bulls to three straight NBA titles but has been the subject of trade rumors since last summer.

"The thing you are worried about with a player of Michael's caliber who has been off for almost two years is that physically he's not ready to come back and he plays the game and he gets himself hurt immediately if he comes back and tries to do it too quickly," Jackson said.

"Secondly, Michael, from his own personal standpoint, is not going to embarrass himself by not being ready to play," he added. "He still has things to go through, the family thing to go through, the financial thing. He still has decisions to make."

The Bulls could have used Jordan on Saturday night, as Los Angeles rallied from a 14-point deficit and ended Chicago's seven-game, home-court winning streak.

Seale Threat sparked Los Angeles with 10 points in the final period. Anthony Peeler, who had 22 points, got a three-point play to put the Lakers on top for good at 100-98 with 1:26 left. Pippen had a season-high 40 points for the Bulls.

Rockets 109, Mavericks 102: In Houston, Clyde Drexler picked up slow-starting Houston with 36 points and the Rockets hit all 18 free throws in the game to defeat Dallas and snap a five-game losing streak.

Jamal Mashburn scored 15 of his 33 points in the third quarter for Dallas, while Houston's Hakeem Olajuwon had 34 points and 12 rebounds.



Vlade Divac and the Lakers rallied past the Bulls, 108-105.

Penguins Break Loose, But Can't Catch Quebec

The Associated Press

Larry Murphy had two goals and two assists and Jaromir Jagr broke out of a four-game scoring drought with three assists as the Pittsburgh Penguins ended the Buffalo Sabres four-game unbeaten streak, 6-2.

Sabres' goaltender Dominik Hasek allowed more than three goals Saturday for the first time

NHL HIGHLIGHTS

in 34 games. No opponent had scored more than three against Buffalo, with Hasek in goal since Feb. 13, 1994, when Dallas beat the Sabres, 5-3.

The Penguins scored during a two-man advantage and Shawn McEachern got their sixth shorthanded goal, which tied them for the league lead. Buffalo had two 5-on-3 power plays, totaling 2-0, but got just two shots on goal and did not score.

Florida 2, Boston 0: John Vanbiesbrouck got his third shutout this season, and 19th in the NHL, as Florida won in Boston.

Maple Leafs 2, Blackhawks 2: Matt Sundin scored a goal and Felix Potvin stopped 28 shots, and made about a dozen difficult saves, for Toronto.

Kings 4, Jets 2: John Druce scored twice as Los Angeles posted its first back-to-back victories in 51 games.

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SPORTS

James, and New Putter, Win in Moroccan Open

Compiled by Our Staff From Despatches

AGADIR, Morocco — Mark James, using a long-handled putter for the first time in a tournament, shot a course record 65 Sunday to win the Moroccan Open.

The 7-under-par final round gave him a one-shot victory over fellow Englishman David Gilford, who also carded 65.

James, whose last European Tour triumph was in the Canary Islands Open in February 1993, had eight birdies in his round and 10 single putts with his broom-handled putter.

Afterward, with his usual dry wit, he said: "I've been putting poorly for 18 years so I thought I might as well have a change."

James has often had problems with short putts, but on Sunday he knocked in the two- and three-footers without a tremor.

Still, Gilford and Sweden's Robert Karlsson, playing just ahead, were never out of the picture.

Karlsson, who shot 67, led when he reached the turn in 32, but he could birdie only one hole coming home and had to

settle for third place, two strokes back.

Gilford sank a 30-foot putt for birdie 3 at the 18th, which meant that James had to par the hole to win.

Two steady shots on to the green and James two-putted to win the first prize of \$32,160.

Mark O'Meara, after squandering four shots over the last four holes of the third round, still took a three-stroke lead into Sunday's last round of the Honda Classic in Fort Lauderdale, Florida.

Nick Faldo, after a round played in "at least a three-club wind," was in second place.

Ian Woosnam and Blaine McCallister, who grew up in wind-swept west Texas, shared third at 209. Woosnam shot 69 and McCallister 73.

Seve Ballesteros, holder of five major tournament titles, was in contention until a wildly erratic 76 that included eight bogeys and three birdies.

And then there was Mike Standly, in third place until he took a triple-bogey 6 on the 17th. (Reuters, AP)

SCOREBOARD

NBA Standings

EASTERN CONFERENCE

Atlantic Division

Midwest Division

Central Division

Western Conference

Pacific Division

Midwest Division

Central Division

Western Conference

Pacific Division

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Gold for China, And for Skating

By Christopher Clary
Special to the Herald Tribune

BIRMINGHAM, England

On the day skating officials were knocking down administrative barriers in hopes of creating a more stable future for their sport, Chen Li was gracefully knocking down barriers of her own on the ice.

The first Chinese figure skater to win a bronze at the world championships is now the first Chinese skater to win a gold. The 18-year-old Chen did it on Saturday, closing out the championships with a smooth and culturally correct freestyle program set to music from the film "The Last Emperor."

Her performance was error-free and just technically challenging enough to give her an edge over her largely teenage opposition.

Surya Bonaly of France, the oldest of the main contenders at 21, took her third consecutive silver, this time without thumbing her nose at the judges.

Nicole Bobek, the 17-year-old from Chicago who led after the short program, set for the bronze after falling twice during her free skate.

Clearly, the lifting music to the film "Dr. Zhivago" just does not lend itself to happy endings. But though Bobek was teary-eyed and apologetic when her program concluded, she later could look back and wax proud of herself.

The skater the ISU would most like to see back in the mix is Oksana Baiul, the charismatic Ukrainian teenager who won the Olympic women's title last year before turning professional. Baiul, who has expressed her desire to be reinstated but not committed to it, was in Birmingham as an observer.

She must have noticed, to her chagrin, that the technical difficulty continues to increase. Bobek opened with a triple half-tuck toe loop combination; Bonaly did four triples and two double Axels in the 75 seconds of her free program (and not a whole lot else worth mentioning afterward).

And then there was the Swiss veteran Michelle Kwan, the 14-year-old daughter of Chinese immigrants. She was the last competitor to skate Saturday, and all she did was upset her elders with a flawless free program that included seven triple jumps that would earn her fourth place overall.

Kwan is normally poised well beyond her years, but, as she glided off the ice following the afternoon's only standing ovation, she began to tremble and cry. But the tears were tears of release. Both she and her sport appear to have a bright future.

"It's difficult to say whether I will win the overall title, but this

at all world championships next season in figure skating, as well as speed skating and short-track. The number of figure-skating competitions open to both professionals and Olympic-eligible competitors will be increased from two to eight.

The ISU's council, the 13-member board that sets policy, also said it would push for the creation of a Grand Prix in which the skating federations of Canada, France, Germany, Japan and the United States would create an international circuit from existing events such as Skate America and the Trophée de France. Prize money and points would be awarded, and top finishers would be eligible to compete in a new season-ending event called the Grand Prix final.

Professional skaters would not be eligible to compete on the Grand Prix circuit.

"If I were an eligible skater, I would definitely think twice before going ineligible after this," said the new ISU president, Ottavio Cinquanta, who made it clear the announcements had been timed to encourage professionals to gain reinstatement by the April 1 deadline.

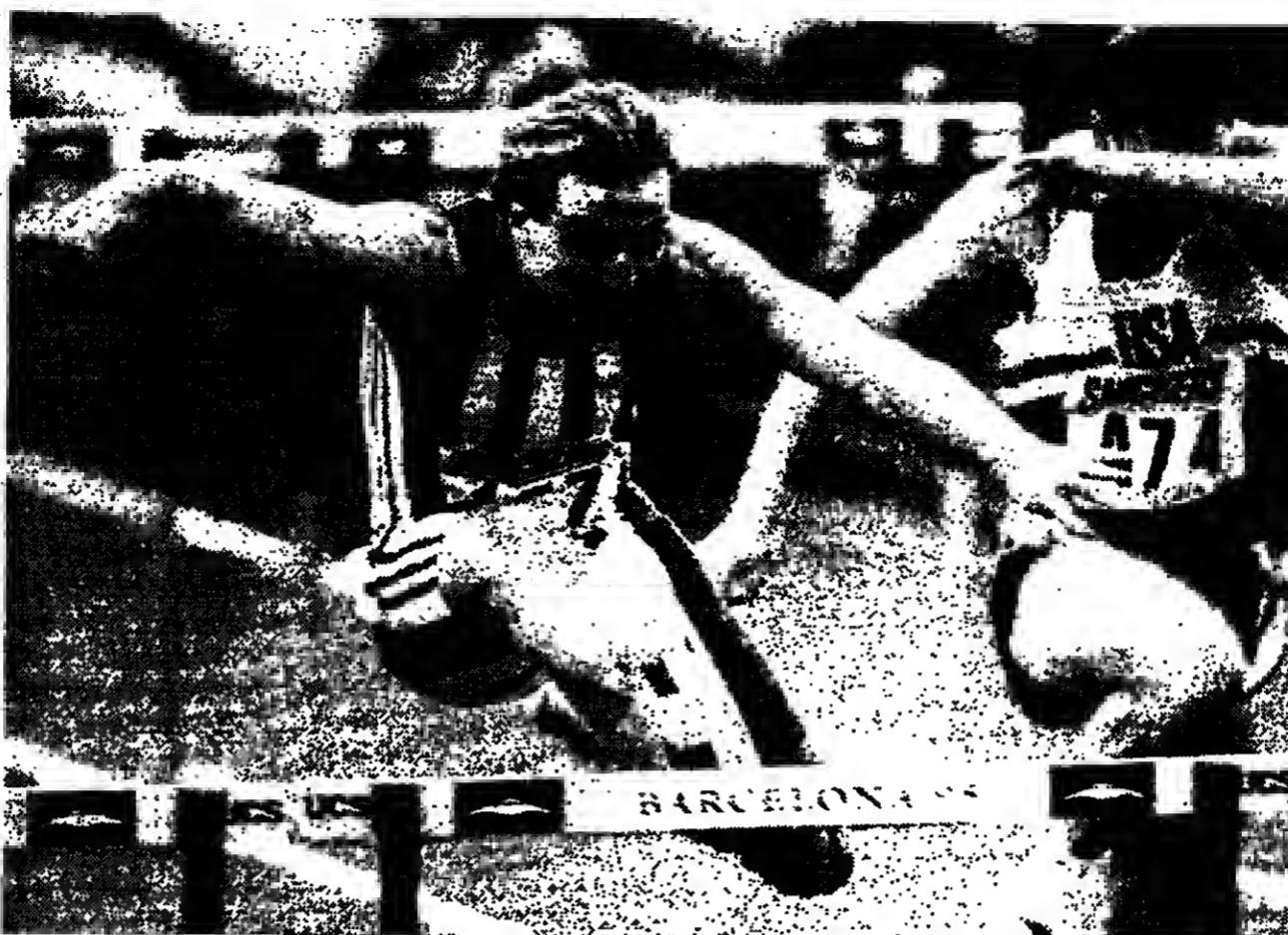
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Christian Plazat of France, running in the 60-meter hurdles, won the heptathlon, with Czech Tomas Dvorak second.

Schneider Wins Women's Slalom Title

Compiled by Our Staff From Dispatches
PARPAN, Switzerland —

Vreni Schneider of Switzerland, the triple Olympic champion, clinched her sixth world slalom title on Sunday despite finishing second to Pernilla Wiberg of Sweden in the penultimate World Cup slalom of the season.

Wiberg won her first World Cup slalom this season in an aggregate time of 1 minute, 17.31 seconds, but a blistering run in the second leg lifted Schneider from fifth to second place in 1:17.68.

That was enough to raise the Swiss veteran's slalom tally to 460 points, well beyond the reach of Germany's Martina Ertl, who has 278 with one race left; next week, Ertl finished third on Sunday in 1:17.94.

Schneider's performance also vaulted her to the top of the overall World Cup standings, with 1,090 points, and dropped Kaja Seizinger of Germany down to second at 1,055. Heidi Zeller-Bähler of Switzerland dropped to third at 990.

Schneider, 30, who has 54 career World Cup triumphs, was cautious about the impact of the coming finals in Bormio, Italy, on her season.

"It's difficult to say whether I will win the overall title, but this

weekend was a decisive step," she said.

Wiberg, an all-rounder who was runner-up to Schneider in the overall World Cup last year, also won the combined, a paper discipline, which added another 100 points to her overall total. Schneider was second in the combined, picking up another 80 points for her overall total.

On Saturday, Picabo Street became the first U.S. skier to win a World Cup downhill title, with a split-second victory over Warwara Zelenkaja of Russia in Lenzerheide, Switzerland.

Street staged a brilliant late spurt, finishing in 1:50.57, six-hundredths of a second ahead of Zelenkaja. Renate Götschi of Austria was third in 1:50.71.

It was Street's fourth straight victory and fifth this season. She is the first American, man or woman, to win a World Cup downhill title.

Street has 609 points in the downhill standings. Her teammate Hilary Lindt, who won two races earlier this season, is second with 443 points. Seizinger, the Olympic downhill champion, is third at 400. With one downhill left, Street's lead is unassassable.

She has won more downhill races this season than any other U.S. skier in an entire career.

(AP, Reuters)



Pernilla Wiberg won the penultimate slalom on Sunday.

Bad Weather Curtails Men's Races in Norway, U.S. Protests

Compiled by Our Staff From Dispatches

KVITFJELL, Norway — Bad weather forced organizers to cancel a men's World Cup super-G race Sunday, as the United States lodged a protest with the International Ski Federation for amending downhill last week that the race jury had called good.

Poor visibility, which also marred two downhills Saturday on the Olympic course, high winds and driving snow forced the jury to cancel the super-G on Sunday. The race could be rescheduled for Bormio, Italy, where the World Cup finals start Wednesday.

On Saturday, Pietro Vitalini of Italy

won the downhill that replaced the disputed March 5 race, which had been

curtailed by bad weather in Aspen, Colorado. Kyle Rasmussen of the United States won the day's other downhill.

FIS, the sport's international governing body, on Wednesday overturned a unanimous decision by the Aspen race jury, which had awarded victory to A. J. Kvit of the United States in a race called off after only 31 of the 68 entrants had

competed. Normally, two-thirds of the

racers in this case 44, must compete

before a World Cup event is official.

"If we let a bunch of people sitting

thousands of kilometers away decide a

race, the sport is going to die," said the U.S. coach, Tom Karlson.

He said the U.S. Ski Federation sent a protest during the weekend to FIS in Geneva against letting third-party jurors handle protests.

The return downhill on Saturday was

also curtailed by bad weather, with only

37 skiers finishing. The race jury, including two of the people from Aspen, ruled

that it was good.

"Vitalini's win was fair, but either none

of these two races or both Aspen and

Kvitfjell should count," Karlson said.

Vitalini was timed in 1 minute, 44.13

seconds down the 3,035-meter course,

where Tommy Moe of the United States won his Olympic gold medal last year.

Moe tore ligaments in his right knee in a fall during Friday's super-G, ending his World Cup season.

Josef Strobl, the rising star from Austria, was four-hundredths of a second behind Vitalini. Another Austrian, Armin Assinger, was third in 1:44.43.

In the second race, Rasmussen flashed down a shortened course in 1:37.10 seconds, beating Kristian Gheche of Italy by 11 hundredths of a second. Patrick Ortlib of Austria was third in 1:37.39.

(AP, Reuters)

Privalova Shines In Barcelona

By Ian Thomsen
International Herald Tribune

BARCELONA — Outside.

the bare flag poles rimming the 1992 Olympic Stadium were rattling in the cool, winter wind — they were the white, chattering skeletons of Fermín Cacho's stadium — while next door at the 5th IAAF World Indoor Championships, little worthy of the title was happening at all.

The International Amateur

Athletic Federation has promised

that this will not happen again, that prize money will be used to lure the world's greatest

professionals to the next indoor

championships, in 1997 (al-

though no one doubts that a few

favorites were paid — otherwise

why was Sergei Bubka here?)

But it will come too late for

the sophisticated Barcelonans,

who appeared to fill only half

the seats over three days at the

Palau Sant Jordi. If receiving

these lackluster championships

was their reward for the

Olympic successes of 1992, then

the final reckoning has to be

that they have done more for the

sport than it has done for them.

A few glimmers came from

the likes of Irina Privalova, who

decided to challenge the

400-meter world record of 49.59

seconds on Sunday without really

training for it. She might have

broken it, too, had someone

been able to push her; no sooner

had the lanes merged than she

was bursting away in a higher,

dazzling gear to become the

first woman with world titles in

60, 200 and 400 meters indoors.

Her performance of 50.23

seconds was the fourth-best of

all time, and she believes it will

help her over 100 meters this

summer at the outdoor world

championships in Gothenburg, Sweden.

A weak U.S. team prevailed

in the final hours Sunday with

four gold medals led by Allen

Johnson's championship record

of 7.39 seconds in the 60-meter

hurdles. Colin Jackson was not

here, but Johnson is the next

best thing, having stopped the

British's winning streak this sea-

son.

Behind Johnson were his

teammate Courtney Hawkins in

7.41 seconds, Tooy Jarrett of

Britain in 7.42 and Mark

McKoy, the former Canadian

now running for Austria, in

7.46.

Another American, Darnell

Hall, was almost elbowed off

the track midway through the

400 meters before regaining his

stride and kicking past Sunday

Bada of Nigeria to win in 46.17

seconds.

Maria Mutola of Mozambique

won the 800 meters in 1

minute, 57.62 seconds, beating

the field by more than two sec-

onds but losing to the clock.

"I tried to beat the world rec-

ord," she said, having failed by

LANGUAGE

East Was East but What Is Central?

By William Safire

WASHINGTON — "If you want to get with it in terms of nomenclature," Richard Holbrooke, assistant secretary of state for European and Canadian affairs, told me a few months ago, "you're going to have to stop referring to the nations of Eastern Europe as being in *Eastern Europe*. They think of themselves as being *Central Europeans*."

Was I being subtly manipulated in some sort of bureaucratic power play? Rather than rush out to the cutting edge of current diplomatic usage — possibly contributing unwittingly to the perpetuation of a policy nuance — I waited for this major geo-semantic shift to work its way upward.

Sure enough, when the White House held a meeting to promote trade with what we used to call *countries behind the Iron Curtain*, or *captive nations*, or *Warsaw Pact nations*, the designation chosen was not *Eastern Europe*, but a tentative, transitional, all-inclusive "White House Conference on Trade and Investment in *Central and Eastern Europe*."

But in addressing that group in Cleveland, President Clinton threw out the *Eastern* and glibly used the Holbrooke formulation: "Look at what is happening in *Central Europe*... Just six years ago, the countries of *Central Europe* were still captive nations."

It's all very well for diplomats to issue diktats and for presidents to get on usage usages, but nothing changes until it changes in *The New York Times*, which does not treat geographic designations or names of countries lightly, especially when political implications impinge.

"For my language column," I queried Allan M. Siegal, assistant managing editor and overall stylistic czar, "do we capitalize *Eastern Europe* and *Western Europe*?" That was an easy one, for openers: then the zinger, put offhand: "Where is *Central Europe*?"

Al Siegal solicited an opinion from Bernard Gwertzman, foreign editor, who replied: "Safire's question comes at a time when the foreign desk has been discussing new terms for the geography of Europe."

In formulating his recommendation, Gwertzman queried Craig R. Whitney in Paris, the Times's European diplomatic correspondent. "Craig, the question is asked here, shouldn't we drop terms like 'countries of *Eastern Europe*' when we really mean, largely, countries of *Central Europe*? I know this is a semantic difference with all sorts of political implications, i.e., if Poland is part of *Central Europe*, shouldn't it be allowed in *NATO* sooner than if in *Eastern Europe*?"

Whitney in Paris to Gwertzman in New York: "When you think that until 50 years ago, Kaliningrad and half of present-day Poland were actually part of Germany, then for Poland, Hungary, Czech Republic, and Slovakia the situation is clear: They always were considered Central Europe and consider themselves that now. Romania and Bulgaria are another story. As for the Balkans: Most people this side of the Atlantic refer to them as southwest Europe, or the Balkans. Historically, Eastern Europe is actually Ukraine, Belarus, and western Russia. The Balkans fit into this scenario as 'the Baltics,' since they are no more Eastern European than Sweden and Finland are. Cheers, Whitney."

Gwertzman to Siegal: "We will use common-sense geographic designations for parts of Europe. Clearly, there is a western Europe, a central Europe, and an eastern Europe. The Cold War had brought about a political division of Europe into East and West, with Berlin the implicit dividing line. The establishment of two alliances, NATO and the Warsaw Pact, allowed us to say 'Western Europe' vs. 'Eastern Europe.' That means that the classic center of Europe was more or less omitted."

With the Cold War over, and with the countries of the old Warsaw Pact no longer tied to the Soviet "East," Gwertzman recommended: "The time has come to restore the Czech Republic, Poland, Hungary, eastern Germany and Slovakia to *Central Europe*. I would say that European Russia, Ukraine, Belarus, Bulgaria, former Yugoslavia, and Romania probably belong in *eastern Europe* but not as a political designation."

Five years ago, in "The Bloc That Failed," Charles Gati saw the political meaning in Europe's loss of the word *central*. "Take 'Eastern Europe.' Before 1945, geographers had seldom identified such a region.... The point provides ample justification for questioning Eastern Europe as a geographic entity." Prague, capital of then-Czechoslovakia, part of the "East," is northwest of Vienna, capital of Austria, considered part of the "West."

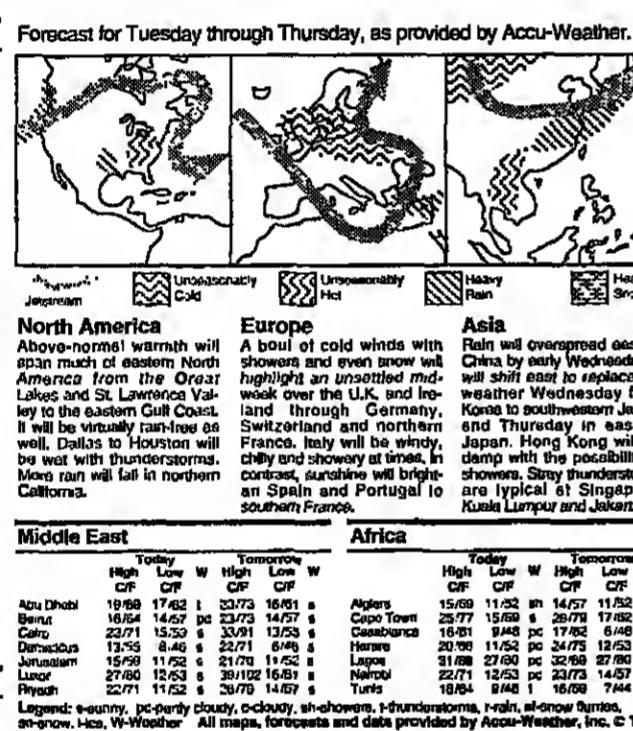
The use of *eastern*, Gati posited, was part of a Soviet pretense of political commonality with the six states of Central and Southeastern Europe. The word *central* once suggested they were greatly influenced by Germany; the word *eastern* asserted the domination of Russia.

But here's my own mooring, updated and consistent: capitalize the noun, not the adjective. It's *eastern Europe*, *central Europe*, and *western Europe*. (And whatever became of northern and southern Europe?)

New York Times Service

WEATHER

Europe



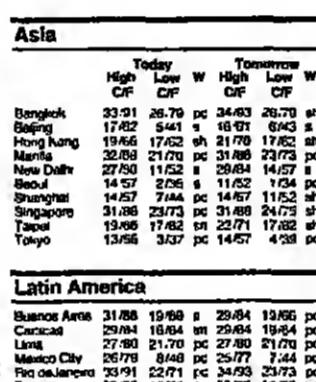
Oceania

Australia 23/73 14/57 8 22/71 12/63 pt

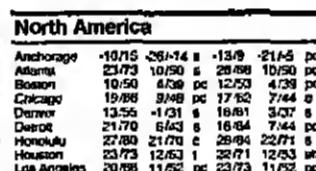
Sydney 24/76 17/62 8 24/75 17/62 pt

Asia

North America



Latin America



North America



Middle East



Africa



AT&T crosses into six hours.

The Concorde does it in three.

With an operator, you can do it in seconds.

Without one, you can do it even faster.

In the Cause of Contemporary Chinese Art

By Carol Luffy

HONG KONG — Few people in the art world can successfully straddle the spheres of the traditional and the avant-garde. Even fewer manage to function as curator and dealer at once. But Johnson Chang is navigating his way through each of those domains. And to a surprising extent, he is building a reputation in all four.

The hip, articulate, U.S.-educated, scholar of traditional Chinese art is also one of the world's most influential advocates of contemporary art from Hong Kong, China and Taiwan.

Over the past year, he has curated "Man and Earth," an exhibition of four first-generation, postwar Taiwanese painters, which is touring the United

Tastemakers

An occasional series about people for whom style is a way of life

